Agency Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	2,696.84	87.00	46.10	2,829.94	96.00	55.85	2,848.69	2,848.69
Personal Services	98,366,813	5,594,937	1,834,153	105,795,903	6,460,961	2,195,444	107,023,218	212,819,121
Operating Expenses	70,760,991	7,392,238	13,576,449	91,729,678	8,407,318	6,544,728	85,713,037	177,442,715
Equipment	793,242	122,483	222,157	1,137,882	45,483	107,157	945,882	2,083,764
Capital Outlay	6,356	0	0	6,356	0	0	6,356	12,712
Local Assistance	6,249	0	0	6,249	0	0	6,249	12,498
Grants	37,927,039	5,700,497	1,337,478	44,965,014	6,098,641	1,274,952	45,300,632	90,265,646
Benefits & Claims	558,364,221	95,030,673	101,215,399	754,610,293	116,059,651	104,662,541	779,086,413	1,533,696,706
Transfers	0	0	28,950	28,950	0	29,221	29,221	58,171
Debt Service	619,798	0	2,850	622,648	0	2,850	622,648	1,245,296
Total Costs	**$766,844,709**	**$113,840,828**	**$118,217,436**	**$998,902,973**	**$137,072,054**	**$114,816,893**	**$1,018,733,656**	**$2,017,636,629**
General Fund	228,813,863	22,898,313	9,298,163	261,010,339	27,817,175	14,282,538	270,913,576	531,923,915
State/Other Special	32,370,025	5,357,157	1,701,658	39,428,840	7,051,183	3,210,217	42,631,425	82,060,265
Federal Special	505,660,821	85,585,358	107,217,615	698,463,794	102,203,696	97,324,138	705,188,655	1,403,652,449
Total Funds	**$766,844,709**	**$113,840,828**	**$118,217,436**	**$998,902,973**	**$137,072,054**	**$114,816,893**	**$1,018,733,656**	**$2,017,636,629**

Agency Description

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

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

Reorganization

Two reorganizations occurred in fiscal 2000 that transferred functions from the Child and Family Services Division: 1) facility and residential licensing was transferred to the Quality Assurance Division (7.0 FTE and $217,000 general fund); and 2) adult protective services functions were transferred to Senior and Long-Term Care Division (29.5 FTE and $1.3 million general fund). The Child and Family Services Division continues to be responsible for licensing family foster care homes and child placing agencies and for approval of adoptive homes. In various areas of the state, Child and Family Services Division, child protective services workers continue to respond to adult protective services reports as needed and as back-up for adult protective services workers. In addition, administration of the federal access and visitation grant ($100,000 annually) was transferred from the Child and Family Services Division to the Child Support Enforcement Division

Supplemental Appropriation Description

DPHHS is requesting a supplemental appropriation of $41.7 million total funds, including $14 million general fund. The total general fund cost over-run was initially estimated to be $20 million, not including general fund offsets. Table A-01shows the supplemental appropriation requested by DPHHS in HB 3. The supplemental request is shown by program and service component as well as general fund offsets identified by the department.

The most significant cost over-runs are for mental health services, which account for $11.2 million of the $14 million general fund supplemental appropriation request. Mental health services funded by Medicaid, the general fund supported state Mental Health Services Plan (MHSP) and the Montana State Hospital all experienced cost over-runs during the 2001 biennium.

The most significant cost saving measure ($3.2 million) is expansion of the Children's Health Insurance Program (CHIP) to include mental health services for CHIP-eligible children who are also determined to be seriously emotionally disturbed. This change makes federal CHIP funds available to offset 80 percent of the general fund supported services provided by MHSP to children who are also eligible for CHIP.

The claims payment system cannot allocate costs among funding sources, so costs supported by CHIP funds must be manually determined and entered into the appropriate cost centers in the state accounting system. As of December 1, 2000 there were no costs recorded against the $3.2 million federal CHIP appropriation for mental health services, making it difficult to evaluate whether costs were being offset to the level anticipated.

Table A-01
DPHHS Supplemental Appropriation
General Fund Cost

Function	Biennial Amount
Medicaid Non-Mental Health Services	$ (4,215,525)
Medicaid Mental Health Services	(7,487,303)
State Hospital and Community Mental Health Services	(8,455,089)
Total Cost Over-run	(20,157,917)
Cost Saving Measures	
CHIP Federal Match	3,200,000
CHIP General Fund	1,399,909
Partial Hospitalization	780,000
Utilization Review	750,000
Total Cost Saving Measures	6,129,909
Net Supplemental Request	$(14,028,008)

In November 2000, DPHHS stated that its most current projections indicated that the department-wide general fund cost over-run for fiscal 2001 will be $1.4 million higher than the supplemental appropriation requested in HB 3 as currently drafted ($15.4 million total). The executive has not indicated whether it will request an amendment to HB 3 or take measures to reduce current spending.

LFD ISSUE

Section 17-7-301(7)(b), MCA states:

"An agency shall prepare and, to the extent feasible, implement a plan for reducing expenditures in the second year of the biennium that contains agency expenditures within appropriations. The approving authority is responsible for ensuring the implementation of the plan. If, in the second year of a biennium, mandated expenditures that are required by state or federal law will cause an agency to exceed appropriations or available funds, the agency shall reduce all nonmandated expenditures pursuant to the plan in order to reduce to the greatest extent possible the expenditures in excess of appropriations or funding. An agency may not transfer funds between fund types in order to implement a plan."

The legislature could request that DPHHS identify fiscal 2001 general fund spending that is discretionary early in the 2001 session, and ask DPHHS to quantify the amount of general fund that could be saved if such discretionary spending were reduced or stopped. Depending on results of discontinuing certain expenditures, the legislature could direct DPHHS to reduce expenditures and potentially offset some of the general fund supplemental appropriation.

LFD COMMENT

The Executive Budget request includes a present law adjustment to add $5.0 million general fund and 27 FTE ($35.8 million total funds) over the biennium to continue mental health services at the 2001 biennium level after cost containment measures were instituted. The present law adjustment supports increases for Medicaid funded services, the Montana State Hospital, and the Mental Health Services Plan for persons with incomes up to 150 percent of the poverty level.

Executive Recommended Legislation

County/State Funding Relationships

The executive formed a committee in cooperation with local governments, the Local Government Funding and Structure Committee, to examine all county/state funding relationships. The department worked with the committee to include revisions to the funding of public assistance programs. The bill (LC 5001) proposed by the committee provides that city and county governments would forward certain tax revenues (gambling, alcohol, and motor-vehicle) to the state. The state would provide local governments with an entitlement or grant that local governments could use at their discretion. Under this proposal human services costs historically funded with county funds or the 9-mill levy (in the case of assumed counties) would be funded by general fund. County governments would maintain funds they are currently providing to the state for public assistance programs at the local level.

In response to HB 2 language, and as an alternative to LC 5001, department staff also worked with the Montana Association of Counties (MACo) to develop legislation that would change how counties contribute to public assistance costs. Based upon the discussions with MACo, the department may support legislation that requires non-assumed counties to contribute to public assistance and protective services costs at the dollar value of the five-year average from fiscal 1995 through fiscal 1999. The department estimates this option would require an additional appropriation of $1.5 million general fund. However, because the legislation is in draft form, these cost estimates may change. The Executive Budget does not include a decision package requesting additional general fund in the event this legislation is adopted. Department staff stated they also worked with MACo to develop legislation that would clarify management and authority regarding local control and public assistance programs.

Several programs in DPHHS are funded with county funds that would be retained by counties or diverted to and deposited in the general fund by LC 5001. The amounts shown are the biennial amounts included in the Executive Budget:

- $15.5 million from the 9-mill property tax levy remitted by counties who have opted for state assumption of welfare and public assistance programs and budgeted in primary care Medicaid services;
- $6.8 million of administrative and benefit costs that support public assistance programs;
- $5.6 million of alcohol taxes budgeted to support chemical dependency programs and services; and
- $4.2 million from county property taxes that support child welfare programs and services.

Citizen Review Boards

The 1999 legislature included language in HB 2 directing the department to work with the Supreme Court to develop joint rules, regulations, and procedures for the foster care review process. Department staff indicated they have worked with the Supreme Court administrator's office to prepare a bill that would provide a single foster care review process. The bill draft (LC 0055) provides for a program largely based upon the current citizen review board process, which includes the following changes:

- Citizen review boards would no longer be a pilot project, but would be implemented as the statewide model;
- New requirements for training of review board members would be implemented;
- A listing of parties invited to the reviews would be included in statute; and
- Review board deliberations would be open to all present at the review, except that the presiding board member could close a deliberation if someone who would attend the review made a threat of reprisal or if confidentially laws preclude open deliberations.

The department's budget request does not include a request for increased funding due to workload changes that might be created in the event this legislation is passed.

Expansion of CHIP Financial Eligibility

DPHHS has submitted legislation to raise the financial eligibility for CHIP from 150 percent of the federal poverty level to 200 percent (LC 0441). The Executive Budget includes funds for expanding eligibility to 175 percent of the poverty level in fiscal 2003. Table A-09 at the end of this section shows various levels of the federal poverty level index for fiscal 2000. For a family of four, 150 percent of the poverty level is $25,575 and 175 percent is $29,838 in 2000.

LFD ISSUE LC 0441 (as currently written) would allow DPHHS to expand CHIP financial eligibility above 175 percent of the federal poverty level funded in the Executive Budget request. For instance, if CHIP appropriations were sufficient to expand financial eligibility, or if excess general fund were transferred from other programs to the CHIP program, DPHHS could raise financial eligibility up to 200 percent of the federal poverty level. In the latter instance, the CHIP program could be expanded above the level of ongoing program expenditure levels anticipated by the legislature.

Although LC 0441 includes language directing DPHHS to reduce eligibility for or the amount, scope or duration of CHIP services if the appropriation is insufficient to cover expenditures, the language does not prohibit DPHHS from expanding eligibility above the 175 percent proposed in the Executive Budget.

The legislature could consider whether to propose amendments to LC 0441 to ensure that financial eligibility for CHIP was not raised above the level appropriated by the legislature, or could specify under what circumstances DPHHS could raise eligibility above the level appropriated for and anticipated by the most recent legislative session.

Agency Discussion

Biennium Budget Comparison

The DPHHS 2003 biennium general fund budget request is $70.5 million greater than the 2001 biennium amount. The Biennium Budget Comparison table compares fiscal 2000 expenditures and the fiscal 2001 appropriation to the 2003 biennium budget request.

Biennium Budget Comparison Budget Item	Present Law Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	Present Law Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Biennium Fiscal 00-01	Total Exec. Budget Fiscal 02-03
FTE	2,783.84	46.10	2,829.94	2,792.84	55.85	2,848.69	0.00	2,848.69
Personal Services	103,961,750	1,834,153	105,795,903	104,827,774	2,195,444	107,023,218	197,932,937	212,819,121
Operating Expenses	78,153,229	13,576,449	91,729,678	79,168,309	6,544,728	85,713,037	137,810,034	177,442,715
Equipment	915,725	222,157	1,137,882	838,725	107,157	945,882	2,088,263	2,083,764
Capital Outlay	6,356	0	6,356	6,356	0	6,356	6,356	12,712
Local Assistance	6,249	0	6,249	6,249	0	6,249	8,426	12,498
Grants	43,627,536	1,337,478	44,965,014	44,025,680	1,274,952	45,300,632	77,925,873	90,265,646
Benefits & Claims	653,394,894	101,215,399	754,610,293	674,423,872	104,662,541	779,086,413	1,185,817,240	1,533,696,706
Transfers	0	28,950	28,950	0	29,221	29,221	0	58,171
Debt Service	619,798	2,850	622,648	619,798	2,850	622,648	1,456,132	1,245,296
Total Costs	**$880,685,537**	**$118,217,436**	**$998,902,973**	**$903,916,763**	**$114,816,893**	**$1,018,733,656**	**$1,603,045,261**	**$2,017,636,629**
General Fund	251,712,176	9,298,163	261,010,339	256,631,038	14,282,538	270,913,576	461,349,673	531,923,915
State/Other Special	37,727,182	1,701,658	39,428,840	39,421,208	3,210,217	42,631,425	77,874,019	82,060,265
Federal Special	591,246,179	107,217,615	698,463,794	607,864,517	97,324,138	705,188,655	1,063,931,491	1,403,652,449
Total Funds	**$880,685,537**	**$118,217,436**	**$998,902,973**	**$903,916,763**	**$114,816,893**	**$1,018,733,656**	**$1,603,155,183**	**$2,017,636,629**

Although there is an increase in general fund requested, general fund support for the department decreases from 28.7 percent of the 2001 biennium budget to 26.4 percent of the 2003 biennium budget request. The decrease in general fund as a percentage of total funding is primarily due to requests funded entirely with federal and other funds. The largest requests are: 1) $103.3 million federal funds for food stamp benefit costs; 2) $37 million federal and state special revenue to budget for expenditures supported by drug rebates in the Medicaid program; and, 3) $29.3 million federal funds to implement the second phase of welfare reform known as FAIM Phase II. The increases for both food stamp benefits and the drug rebate revenue are due to accounting changes that require an appropriation for expenditures that have historically been non-budgeted.

Also, general fund comprises a smaller share of the 2003 biennium increase shown in the agency-wide budget table due to the change in the matching rate the state must pay for Medicaid benefits. The state Medicaid matching rate decreases from 27.84 percent in fiscal 2000 to 27.12 percent in fiscal 2002 and 26.98 percent in fiscal 2003. Each 1 percent change in the federal matching rate for Medicaid benefits causes about a $4 million annual change in state Medicaid funding.

Additionally, a present law adjustment to correct the base budget that was incorrectly stated (due to an accounting error) reduces general fund $1.4 million ($2.8 million reduction, total funds).

Budget Adjustments From the Fiscal 2000 Base to the 2003 Biennium Request
As shown in the agency budget summary table, which compares the Executive Budget to the fiscal 2000 base, the DPHHS budget increases $484 million over the biennium. Present law adjustments add $251 million (about 52 percent of the total increase) and new proposals add $233 million over the biennium.

The majority (81 percent) of the biennial increase is supported by federal funds ($392 million). In comparison, general fund increases $74 million and state special revenue increases $17 million.

Although many of the significant increases included in the 2003 biennium budget request are funded with federal funds, general fund support for the department increases by 16 percent ($74 million) above the 2001 biennium. Significant general fund increases included in the DPHHS budget are:

?? Medicaid caseload, utilization growth, and annualization of 2001 biennium provider rate increases add $23 million general fund ($129 million total funds);
?? 2003 biennium provider rate increases add $12.8 million general fund ($41.2 million total funds);
?? Annualization of 2001 biennium mental health services cost over-runs adds $5.0 million general fund and 27 FTE ($35.8 million total funds);
?? Annualization of CHIP start up and expansion in fiscal 2003 adds $4.5 million general fund and 6 FTE ($24 million total funds);
?? A child protective services proposal to balance workload and staff adds $3.4 million general fund and 26 FTE ($4.5 million total funds);
?? Fully funding the Montana Developmental Center adds $2.8 million general fund and 20 FTE ($2.8 million total funds);
?? Foster care and subsidized adoption caseload increases add $2.5 million general fund ($6.1 million total funds);
?? Reduction of the developmental disabilities waiting list adds $2.1 million general fund ($4.5 million total funds);
?? Reduction of federal Title XX support for foster care services adds $1.9 million general fund;
?? Computer system processing time increases add $.9 million general fund ($2.5 million total funds); and
?? Computer system programming maintenance contract increases add $.4 million general fund ($1.3 million total funds.

The three most significant federally funded proposals comprise 43 percent of the $392 million increase in federal funds and are discussed in the preceding section of the narrative. Other significant changes included in the 2003 biennium budget request that do not include general fund are:

?? Child care funding increases add $12.9 million and 3 FTE;
?? Federal block grants for alcohol prevention, treatment, and needs assessment add $10.7 million and 5 FTE;
?? Federal funding for system enhancements and infant formula rebates in the Women, Infants, and Children nutrition program adds $8.2 million;
?? Expansion of Medicaid services, to include chemical dependency services, adds $5.7 million total funds and 1 FTE, and is matched with $2.0 million from existing expenditures of alcohol tax state special revenue;
?? Funding changes and adjustments in public assistance benefits and administration add $5.3 million and 6 FTE;
?? Child and adult care food program increases add $3.3 million and 3 FTE;
?? Commodity and energy assistance grants add $2.8 million and 2 FTE;
?? Food stamp increases add $1.3 million and 1 FTE; and
?? Implementation of a tribal Temporary Assistance for Needy Families (TANF) plan by the Fort Belknap Indian Community reduces federal funds by $1.9 million.

Medicaid Benefit Changes

Medicaid funded services are administered by four divisions within DPHHS. In total, Medicaid funded services are a significant component of the DPHHS budget, comprising over 50 percent of the total 2003 biennium budget request.

Table A-02 shows actual Medicaid benefits costs by division in fiscal 2000 (less one-time appropriations) compared to the Executive Budget request for the 2003 biennium. Fiscal 2000 base budget expenditures and the 2003 biennium request are those shown in the statewide budget system.

Table A-02
2003 Biennium Medicaid Budget Request *
Executive Budget Compared to Fiscal 2000 Base Expenditures

			Executive Budget Request				
	Fiscal 2000 Base*		Fiscal 2002		Fiscal 2003		Percent
Division/Benefit**	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds	of Total
Health Policy and Services Division							
Non Hospital**	$ 20,950,259	$ 107,750,258	$ 23,251,979	$ 126,839,179	$ 23,467,486	$ 132,358,940	24.0%
Hospital	16,901,535	60,778,492	21,388,390	81,955,488	23,511,862	92,225,029	16.7%
Medicare Buy In	2,408,814	8,623,051	2,485,019	9,163,051	2,536,943	9,403,051	1.7%
Indian Health Servs	-	20,538,915	-	21,538,915	-	21,588,915	3.9%
Subtotal Health Policy	40,260,608	197,690,716	47,125,388	239,496,633	49,516,291	255,575,935	46.4%
Senior Long-Term Care Division							
Nursing Homes	28,236,227	98,772,255	28,651,057	107,927,522	29,594,087	113,343,820	20.6%
Home Based Servs	5,112,868	18,346,475	6,931,378	25,558,177	7,532,283	27,918,025	5.1%
Community Waiver	3,853,334	13,852,981	5,541,042	20,431,571	5,891,550	21,836,730	4.0%
Institutional Reimb.	-	13,849,204	-	10,270,766	-	10,554,252	1.9%
Subtotal Senior/Long-Term	37,202,429	144,820,915	41,123,477	164,188,036	43,017,920	173,652,827	31.5%
Addictive and Mental Disorders							
Mental Health***	14,960,489	50,730,906	17,700,581	69,692,431	18,609,447	74,725,591	13.6%
Chemical Dependency	-	-	161,722	3,322,512	149,232	4,502,883	0.8%
Subtotal AMDD	14,960,489	50,730,906	17,862,303	73,014,943	18,758,679	79,228,474	14.4%
Disability Services Division							
Developmental Disability Services	9,621,518	34,560,049	10,887,720	40,146,829	11,480,031	42,550,150	7.7%
Total	$102,045,044	$ 427,802,586	$116,998,888	$ 516,846,441	$122,772,921	$ 551,007,386	100.0%
2000 General Fund Base			102,045,044		102,045,044		
Compounded Annual Growth Rate			7.1%		6.4%		

*This information is based on fiscal 2000 expenditures and 2003 biennium request included in the Executive Budget and the statewide budget system.

**Non-hospital primary care expenditures include $9.3 million in state special mill levy revenue from state assumed counties.

***Mental health services do not include the supplemental appropriation requested fiscal 2000.

The Executive Request includes the provider rate increases as well as present law adjustments for caseload, utilization, and inflation increases. If the legislature approved the executive request, total Medicaid benefit costs would increase about 6 percent annually from fiscal 2000 to fiscal 2003, with a 16 percent total increase in general fund over the same time period. If the fiscal 2000 supplemental appropriation for Medicaid funded mental health services is included the annual rate of increase in general fund for Medicaid services is 6 percent.

Medicaid service costs are increasing in Montana and nationally. Compared to a few years ago, Medicaid growth rates are increasing at a more rapid pace. Some of the increase is due to pharmacy inflation. Montana Medicaid costs are also increasing due to growth in community-based services for the elderly and disabled. Provider rate increases and direct care worker wage increases approved by the 1999 legislature also contributed to the 2003 biennium cost increase.

2003 Biennium Medicaid Costs

If the legislature were to establish general fund growth rates for Medicaid funded services based on the fiscal 2000 expenditure level included in Table A-02, the executive request would increase at a compounded annual rate of 7.1 percent from fiscal 2000 to fiscal 2002 and 6.4 percent from fiscal 2002 to fiscal 2003. The compounded rate of change declines between fiscal 2002 and 2003 partly due to the reduction in the state matching rate for Medicaid costs.

2001 Biennium Medicaid Growth Rate

The legislature added the following language to HB 2:

> "General fund costs of Medicaid benefits may not exceed: (1) a 2.5 percent annual compounded rate of growth in fiscal year 2000 from the fiscal 1998 base amount of $99,371,700; and (2) 3.5 percent in fiscal year 2001 from the fiscal year 1998 base amount of $99,371,700."

Table A-03 compares the 2001 biennium general fund Medicaid growth rates to the fiscal 1998 base amount. The fiscal 2000 and 2001 expenditures are those from the most recent budget status report prepared by DPHHS based on October paid claims. The fiscal 2000 amount is different than that recorded in the accounting system because it is based on more recent data and because it includes the supplemental appropriation amounts that DPHHS is requesting in HB 3 (the supplemental appropriation bill). Since HB 2 language applies to actual expenditures and not budgeted or appropriated amounts, the most recent estimate of actual Medicaid expenditures is used to calculate growth rates.

Table A-03
General Fund Medicaid Growth Rates
2001 Biennium

	Fiscal 2000 Expenditures		Fiscal 2001 Appropriation	
Division/Benefit**	General Fund	Total Funds	General Fund	Total Funds
Health Policy and Services Division				
Hospital	$ 16,134,495	$ 57,954,365	$ 16,769,488	$ 61,766,068
Non Hospital**	21,499,471	110,776,059	25,238,475	118,420,074
Medicare Buy In	2,433,379	8,647,616	2,310,442	8,509,914
Indian Health Servs	-	20,538,915	-	20,935,815
Subtotal Health Policy	40,067,345	197,916,955	44,318,405	209,631,871
Senior Long-Term Care Division				
Nursing Homes	27,489,691	98,359,636	28,100,183	103,095,774
Home Based Servs	5,678,824	14,719,250	6,207,067	22,862,127
Community Waiver	4,522,311	16,243,932	5,000,842	18,419,307
Institutional Reimb.	-	14,014,719	-	13,155,890
Subtotal Senior/Long-Term	37,690,826	143,337,537	39,308,092	157,533,098
Addictive and Mental Disorders***				
Mental Health	16,126,469	57,925,535	18,688,297	68,833,505
Disability Services Division				
Developmental Disability Services	9,431,879	24,446,996	9,209,483	33,920,749
Total	$ 103,316,519	$ 423,627,023	$ 111,524,277	$469,919,223
1998 General Fund Base	99,371,700		99,371,700	
Compounded Annual Growth R Rate	2.0%		3.9%	

*Information from DPHHS fiscal year end 2000 budget status report and budget status report based on October 2000 paid claims.
**Non-hospital primary care expenditures include $9.3 million in state special mill levy revenue from state assumed counties.
***The 2001 biennium supplemental request is included in the estimated costs.

The fiscal 2000 growth rate is within the range established in HB 2 even when the mental health services supplemental appropriation is included. However, the estimated fiscal 2001 general fund expenditures exceed the growth rate established in HB 2.

LFD COMMENT DPHHS has not indicated it will reduce Medicaid expenditures or service levels in order to stay within the growth rate established in HB 2. DPHHS has requested a general fund supplemental appropriation of $8 million to support Medicaid service costs in fiscal 2001. (The total general fund supplemental request of $14 million general fund includes cost over-runs in programs other than Medicaid funded services.)

LFD COMMENT If the legislature wishes to continue language in HB 2 regarding Medicaid growth rates, it may also want to consider whether to measure growth rates based on all state matching funds or continue language relative only to general fund used for state match. The state special revenue sources used to fund the Medicaid match rate in the Executive Budget are: tobacco settlement proceeds from the Constitutional trust fund; the 9-mill property tax proceeds from state assumed counties; other county funds transferred to generate rate increases for county funded nursing homes, hospitals, and community mental health centers; and alcohol taxes to fund the expansion of Medicaid to cover chemical dependency services.

The rationale for considering all state matching funds is that DPHHS initiated rate increases and expansions in Medicaid services funded from state special revenue sources during the 2001 biennium. These expansions were not discussed or anticipated during the 1999 session. DPHHS expanded the cost of entitlement services, potentially creating a situation where legislators must either fund increases they have not approved or cause reductions in services.

If expansions exceed the amount of funds that can be matched by state special revenue sources, the cost of maintaining services could impact general fund requirements. Impacts on the general fund become a concern because even though statute (Section 56-1-101(11), MCA) allows DPPHS to reduce eligibility for Medicaid services and the amount, scope and duration of such services, the statute has rarely, if ever, been instituted to offset Medicaid cost over runs. Also, at least one source of state special revenue, tobacco settlement trust interest, is a direct offset for general fund and could be used for a variety of new proposals included in the Executive Budget or to fund legislative initiatives.

Constitutional Trust Fund - Tobacco Settlement Proceeds

Montana voters approved a change to the state constitution in November 2000, approving Article XII Section 4, which requires the legislature to create a trust fund for tobacco settlement proceeds received after January 1, 2001. At least two-fifths of the settlement proceeds and one-tenth of the interest and income from the trust must be deposited to the trust fund. The principal and one-tenth of the interest and income deposited in the trust must remain inviolate unless appropriated by a two-thirds majority vote of the members of each house of the legislature.

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

LFD COMMENT

The Executive Budget includes $2.7 million of interest income from the tobacco settlement trust fund. The interest income is used to fund rate increases for certain Medicaid services. Table A-04 compares the estimated income available from the trust fund to the amount requested in the Executive Budget by fiscal year.

Interest earnings on the trust fund are estimated to be $4.2 million over the biennium. If the legislature accepts the executive request, it would still have $1.5 million over the biennium to use for legislative initiatives or offset the general fund cost of new health related programs in the Executive Budget.

Table A-04
Tobacco Trust Fund Interest
2003 Biennium

Income/ Expenditures	Income	Executive Budget	Net Available
Fiscal 2001	$ 503,000	$ -	$ 503,000
Fiscal 2002	1,379,000	600,000	779,000
Fiscal 2003	2,314,000	2,100,000	214,000
Total Available Over Biennium			$ 1,496,000

Provider Rate Increases

Table A-05 summarizes 2003 biennium provider rate increases included in the Executive Budget. Provider rate increases total $41.2 million total funds and $12.8 million general fund over the biennium. Rate increases range from a single annual increase of 35 percent for Medicaid ambulance services to 1.5 percent annually for some Medicaid aging services. The most significant general fund cost is the proposed increases for developmental disability services at $3.3 million over the biennium. In fiscal 2003, provider rate increases comprise 3 percent of the total general fund increase requested by the DPHHS.

Table A-05

2003 Biennium Provider Rate Increases Requested in Executive Budget

	Fiscal 2002			Fiscal 2003			Biennium Total		
Division and Provider Rate Increase	General Fund	Total Funds	Percent Increase	General Fund	Total Funds	Percent Increase	General Fund	Total Funds	Percent of Total
Child and Family Services Division									
Family Foster Care	$ 221,045	$ 340,069	3.00%	$ 227,720	$ 350,339		$ 448,765	$ 690,408	1.7%
Subsidized Adoption	387,088	750,170		812,885	1,575,357		1,199,973	2,325,527	5.6%
Foster Care Facilities	120,026	184,656		127,361	195,940		247,387	380,596	0.9%
Subtotal CFSD	$ 728,159	$ 1,274,895		$ 1,167,966	$ 2,121,636		$ 1,896,125	$ 3,396,531	8.2%
Health Policy and Services Division									
Medicaid Providers									
Ambulance Services	97,090	358,000	35.00%	99,826	370,000		196,916	728,000	1.8%
Dental Services	290,435	1,070,926	20.00%	382,994	1,036,552		673,429	2,107,478	5.1%
Non-Hospital	271,611	1,001,517	2.50%	545,823	2,023,064	2.50%	817,434	3,024,581	0
Hospital	121,541	1,177,539	1.85%	51,155	2,398,464	1.85%	172,696	3,576,003	0
Subtotal HPSD	$ 780,677	$ 3,607,982		$ 1,079,798	$ 5,828,080		$ 1,860,475	$ 9,436,062	22.9%
Disability Services Divison									
Provider Wage Parity (DD)	835,836	1,641,057	5.00%	2,500,534	4,923,170	10.00%	3,336,370	6,564,227	15.9%
Provider Rate Increase (VR)	61,085	169,409	2.70%	123,820	343,392	2.70%	184,905	512,801	1.2%
Tuition Increase (VR)	27,768	177,436	4.00%	252,270	401,938	4.00%	280,038	579,374	1.4%
Subtotal DSD	$ 924,689	$ 1,987,902		$ 2,876,624	$ 5,668,500		$ 3,801,313	$ 7,656,402	18.6%
Senior and Long-Term Care Division									
Nursing Homes	928,002	4,643,996	4.50%	1,379,394	6,969,363	4.50%	2,307,396	11,613,359	28.2%
Home Based, Community Waiver, Aging Services	82,521	304,282	1.50%	167,811	621,984	1.50%	250,332	926,266	2.2%
Personal Care Assistants	211,931	781,455		448,676	1,214,319		660,607	1,995,774	4.8%
Subtotal SLTC	$ 1,222,454	$ 5,729,733		$ 1,995,881	$ 8,805,666		$ 3,218,335	$ 14,535,399	35.3%
Addictive and Mental Disorders Division									
Medicaid Mental Health	183,843	938,734	1.50%	459,109	2,844,363	3.00%	642,952	3,783,097	9.2%
Psychiatrists	88,285	231,831	25.00%	102,309	269,498		190,594	501,329	1.2%
Mental Health Services Plan	193,414	193,414	1.50%	586,043	586,043	3.00%	779,457	779,457	1.9%
Frontier County Services	193,829	557,419	20.00%	199,644	574,142		393,473	1,131,561	2.7%
Screening/Treatment	2,681	3,331	1.50%	8,121	9,434	3.00%	10,802	12,765	0.0%
Subtotal AMDD	$ 662,052	$ 1,924,729		$ 1,355,226	$ 4,283,480		$ 2,017,278	$ 6,208,209	15.1%
Department Total	$ 4,318,031	$ 14,525,241		$ 8,475,495	$ 26,707,362		$ 12,793,526	$ 41,232,603	100.0%
Total Budget Request	$ 261,010,339	$998,902,973		$ 270,913,576	$ 1,018,733,656				
Rate Increases as % of Total	1.7%	1.5%		3.1%	2.6%				

Family Foster Care and Foster Care Facilities: The Executive Budget narrative indicates 50 cents per day per year is requested for family foster care rate increases and 3 percent per year is requested for foster care facility rate increases. However, the funding included in 2003 biennium budget is only sufficient to provide the described rate increase in the first year of the 2003 biennium and maintain funding of that increase in the second year of the 2003 biennium. The funding requested in the 2003 biennium budget is not adequate to provide 50 cents per day for family foster care and 3 percent per year for foster care facilities in both years of the 2003 biennium. For additional information on foster care rate increases please refer to the Child and Family Services Division program narrative.

Subsidized Adoption Rate Increase: The Executive Budget narrative indicates 50 cents per day per year rate increase is requested for families receiving adoption subsidies. However, when the funding requested in this decision package is divided by the projected number of subsidized adoptions for the year and 365 days per year, the estimated increase per day of care is $1.49 in fiscal 2002 and $2.72 in fiscal 2003, considerably more than the 50 cents per day described in the decision package narrative. The adoption subsidy payment is negotiated at the time the adoption is finalized. Subsidies for adoptions that are finalized may be up to $10 per month less than the cost of family foster care. Thus, as family foster care rates rise the costs of the adoption subsidies negotiated during that year also rise. However, subsidies that are negotiated for adoptions finalized in preceding years do not automatically receive a rate increase. (Subsidies for adoptions finalized in preceding years may be renegotiated if the family requests a review of the financial subsidy.) For additional information on subsidized adoption rate increases please refer to the Child and Family Services Division program narrative.

Health Policy and Services Division: Provider rate increases vary by provider type for Medicaid services administered by the Health Policy Services Division. Ambulance rates are proposed to increase 35 percent the first year of the biennium and dental service rates are proposed to increase 20 percent. The proposed rate increase for non-hospital services is 2.5 percent annually and hospital rate increases are 1.85 percent annually.

Developmental Disabilities: The Executive Budget includes a 5 percent increase in fiscal 2002 and an additional 10 percent increase in fiscal 2003 to raise wages and benefits for direct service staff working in private nonprofit corporations.

Vocational Rehabilitation: The Executive Budget includes a 2.7 percent per year provider rate increase for vocational rehabilitation service providers.

Tuition Increases: The budget request for vocational rehabilitation services includes a request for a 4 percent per year increase in tuition costs. The request for the 2003 biennium tuition increase is included as a present law adjustment rather than as a new proposal. The Executive Budget recommends a 3 percent increase in tuition for the university system.

Senior and Long-Term Care Division: The most significant rate increase is the proposal to raise nursing home rates 4.5 percent annually. The rate increase is tied to a change in nursing home reimbursement methodology to move to a price based reimbursement from the current cost based methodology. Other services, with the exception of personal care assistant services, are proposed to receive 1.5 percent annual rate increases. The executive proposes to raise wages of personal care assistants by 25 cents per hour in fiscal 2002 and 50 cents per hour in fiscal 2003.

Addictive and Mental Disorders Division: Three rate increases for Medicaid, MHSP, and indigent youth alcohol treatment include a 1.5 percent increase in fiscal 2002 and a 3.0 percent increase in fiscal 2003. A one time increase of 25 and 20 percent is requested for psychiatric services and services provided in frontier counties (counties with a population density of fewer than 6 persons per square mile). The frontier rate increase was instituted by the department in fiscal 2000.

Intergovernmental Transfer Programs
DPHHS is raising Medicaid rates for county funded providers in fiscal 2001 through the use of intergovernmental transfers. An intergovernmental transfer program allows local government revenues to be used as matching funds to draw down federal Medicaid matching funds. DPHHS has implemented one program to raise rates for county funded nursing homes during fiscal 2001 and is in the process of implementing two others to raise rates for county funded hospitals and county supported community mental health centers. The nursing home intergovernmental transfer program is included in the Executive Budget for legislative review.
The DPHHS intergovernmental transfer programs would allow counties that fund public facilities providing Medicaid funded services to transfer county funds to the department. DPHHS would then use those county funds as match to draw down additional federal matching funds and increase Medicaid rates paid to the facility. Such actions would allow counties to leverage existing expenditures and create more revenue.

The federal Health Care Financing Authority recently proposed amendments to rules governing intergovernmental transfer programs because of prior abuses. The proposed rules limit the amount of reimbursement to no more than would be allowable under Medicare payment principles for all providers except hospitals, where the allowable upper payment limit would be 150 percent of Medicare payment principles. States must determine the upper payment limit (amount allowed under Medicare cost principles) and ensure that total payments made to a class of facilities do not exceed the ceiling.

The Senior and Long-Term Care Division has implemented a limited proposal in fiscal 2001 to raise county funded nursing home Medicaid rates to the median rate paid all nursing homes. The department is requesting a language to expand the program, and allow rates paid to county funded nursing homes to rise to the allowable federal upper payment limit. The Senior and Long-Term Care Division proposal also requires participating counties to fund the general 4.5 percent rate increased proposed for the 2003 biennium to receive rate increases above the 4.5 percent level.

The Health Policy and Services Division has requested federal approval of its proposal to allow county funded hospitals to receive higher Medicaid reimbursement rates up to 90 percent of the allowable upper limit. The Addictive and Mental Disorders Division has drafted a contract to allow county supported community mental health centers to receive increases for frontier services and the revenues partially funds frontier rate increase in the Executive Budget.

Language Recommendations
The following language is recommended for HB2:

> "The department may add FTE instead of contracting for services if it certifies to the office of budget and program planning that FTE are more cost effective than contracting. FTE added through this language will be modified and may not be included in the 2003 biennium base budget."

Agency Issues

OLMSTEAD and Issues Related to the Americans with Disabilities Act (ADA) Legal Actions
The purpose of the Americans with Disabilities Act of 1990 was to provide clear and comprehensive prohibition of discrimination on the basis of disabilities. Since the ADA was enacted, legal actions citing the prohibition of discrimination based upon disability as a basis for the legal argument have occurred. The decisions rendered or to be rendered by various courts, provide states interpretation of the breath of the requirements included in the ADA and actions to be undertaken to assure that compliance with ADA requirements is achieved. The following paragraphs summarize the potentially significant and far reaching interpretations of the ADA by the courts that will probably impact how and what services are provided by the state to individuals with disabilities.

In June 1999 the U.S. Supreme Court issued its decision in the case of Olmstead v. L.C. The Olmstead case was brought by two Georgia women whose disabilities included mental retardation and mental illness, and who lived in state run institutions at the time the suit was filed despite treatment professionals' determination that they could be appropriately served in a community setting. The plaintiffs asserted that continued institutionalization was a violation of their right under the ADA to live in the most integrated setting appropriate. The U.S. Supreme Court responded to the fundamental question of whether it is discrimination to deny people with disabilities services in the most integrated setting appropriate. Based upon the Olmstead decision states are required to provide community based services for persons with disabilities who would otherwise be entitled to institutional services when: 1) state treatment professionals determine that such placement is appropriate; 2) the affected persons do not oppose such treatments; and 3) the placement can be reasonably accommodated taking into account the resources available to the state and the needs of others who are receiving state supported disability services. The court cautions that nothing in the ADA condones termination of institutional settings for persons unable to handle or benefit from community settings.

Under the ADA, states are obliged to make reasonable modifications in policies, practices, or procedures when the modifications are necessary to avoid discrimination on the basis of disability unless the public entity can demonstrate that making the modifications would fundamentally alter the nature of the service program or activity (28 CFR 35.130(b)(7)). The Supreme Court indicated that the test as to whether a modification entails fundamental alteration of a program takes into account three factors: 1) the cost of providing services to the individual in the most integrated setting appropriate; 2) the resources available to the state, and 3) how the provision of services affects the ability of the state to meet the needs of others with disabilities.

The court suggests that a state could establish compliance with the ADA if it demonstrates that it has: 1) a comprehensive, effectively working plan for placing qualified persons with disabilities in less restrictive settings; and 2) a waiting list that moves at a reasonable pace not controlled by state endeavors to keep its institutions fully populated.

Other Court Cases Related to Olmstead
A federal district court in Pennsylvania rejected the argument that the U.S. Supreme Court decision in Olmstead confers on institutionalized individuals the right to remain in a large, state operated facility. In Richard C. v. Houstons the federal district court confirmed that nothing in the Olmstead ruling precludes a state from closing or downsizing an institution or placing individual residents into the community. The ADA does not confer on individuals or parents and guardians the right to veto such actions.

An ADA related case commonly called the Garrett case is pending before the U.S. Supreme Court. The case of University of Alabama v. Garrett is an employment discrimination case involving an employee at the University of Alabama medical center who sued claiming damages for discrimination under the ADA, which prohibits discrimination on the basis of disability in employment. Attorneys for Alabama argued: 1) that Congress did not have the constitutional authority under the Fourteenth Amendment to the U.S. Constitution to enact ADA and 2) challenged Congress's power to enact legislation regulating state conduct. If the U.S. Supreme Court rules that Congress did not have the constitutional authority to enact ADA legislation, the constitutionality of the ADA would be in question and states would probably not have to comply with the ADA. The U.S. Supreme Court is expected to issue a decision in early 2001.

Potential Significance of ADA Related Legal Interpretations
The cases mentioned above represent significant legal actions impacting the ADA and state compliance with the act. The Olmstead and Garrett cases have far-reaching and conflicting implications for states. The Olmstead case leaves many questions yet to be answered. Among the unanswered questions is just how far reaching the Olmstead decision might be. Most experts believe that Olmstead has far reaching implications for Medicaid and disability service programs including nursing homes, mental health, and developmental disability service programs. States may not know the full implications and requirements of the Olmstead decision for some time because it will take multiple court cases to define the parameters that states must work within. Conversely, the decision rendered in the Garrett case could mean states do not have to comply with the ADA or court interpretations such as the Olmstead decision.

LFD ISSUE

The department states that it is proceeding with actions to comply with requirements of the Olmstead decision and has begun a self-evaluation and planning process that seeks to fulfill the requirements outlined by the court as a means to demonstrate compliance with Olmstead. Currently, the Disability Services Division, Senior and Long-Term Care Division and the Addictive and Mental Disorders Division have each begun a planning and/or review process involving an advisory panel. It is important that the activities of the divisions be incorporated into a single statewide plan that provides for the consistent treatment of persons with disabilities.

In considering the Executive Budget request, the appropriations subcommittee may wish to review DPHHS plans to comply with the Olmstead decision. The subcommittee may wish to request that DPHHS identify specific budget requests that impact its compliance with Olmstead and how the budget proposals support the Olmstead plan.

Additionally, the legislature may wish to:
1) Continue oversight of Olmstead related activities during the 2003 biennium; and
2) Include language in HB 2 directing the department to report to an interim legislative committee on a quarterly basis the activities and actions taken to comply with the Olmstead decision.

Temporary Assistance for Needy Families
The Temporary Assistance for Needy Families (TANF) grant was created in 1996 by federal welfare reform legislation. TANF funds are used to support the costs of benefits, services, and related administrative costs of programs serving low-income children and families. TANF funds support some costs incurred by the following divisions within the department:

?? Human and Community Services Division;
?? Child and Family Services Division;
?? Director's Office;
?? Child Support Enforcement Division;
?? Operations and Technology Division; and
?? Disability Services Division.

Final TANF regulations became effective October 1, 1999. The final regulations provide states a great deal of flexibility in how federal grant funds and state maintenance of effort (MOE) funds may be spent. TANF funds may be spent in any way that fulfills one of the purposes included in the federal regulation. The four purposes of the TANF program as contained in federal legislation are:

1) To provide assistance to needy families;
2) To end dependence of needy parents by promoting job preparation, work, and marriage;
3) To prevent and reduce out-of-wedlock pregnancies; and
4) To encourage the formation and maintenance of two-parent families.

Services provided in an effort to fulfill the first or second purpose of TANF require that the family meet the state definition of a needy family in order to be eligible for TANF funded services. Services provided in an effort to fulfill the third or fourth purpose of TANF may be provided to both needy and non-needy families as long as objective criteria are used to determine eligibility to receive the service. The regulations governing the expenditure of TANF and MOE funds are lengthy and complex making it impractical to discuss the multitude of options in this document. It is important to remember that federal guidance on the expenditure of TANF and MOE funds stresses the extraordinary flexibility in the use of these funds, and that states should start with the assumption that funds may be used in innovative ways to achieve the goals contained in the TANF legislation. Please refer to the TANF discussion included in the Human and Community Services Division for additional information on TANF and related budgetary issues. Additional information on the innovative use of TANF funds is contained in legislative staff reports prepared during the interim.

Federal CHIP Funding
CHIP is funded by a federal block grant, which requires a state match based on a percentage of the state Medicaid match rate. The state CHIP match is about 19 percent during the 2003 biennium. The state has three years in which to spend each grant allotment and unexpended amounts revert to the federal government.

Table A-06 shows the amount of federal CHIP grant funds included in the Executive Budget, the actual grant amount and expenditures through federal fiscal year 2000, estimated grant and expenditures from fiscal federal fiscal 2001 through 2007, and the total estimated grant funds available each year.

Table A-06
Allocation of CHIP Federal Grant Based on Executive Budget Request
Department of Public Health and Human Servcies

Federal Fiscal Year	Total Grant	Proposed Reallocation of Reversion*	Admin.	CHIP Insurance	Mental Health Services	Total Costs	Net Annual Activitiy	Amount Reverted	Carry Over Cumulative
1998	$ 11,740,395	$ -	$ -	$ -	$ -	$ -	$ 11,740,395	$ -	$ 11,740,395
1999	11,684,948	-	59,936	538,004	-	597,940	11,087,008	-	22,827,403
2000	13,173,122	-	428,796	4,558,617	-	4,987,413	8,185,709	5,469,735	25,543,377
2001	13,173,122	3,563,337	1,673,646	10,231,434	3,200,000	15,105,080	1,631,379	1,620,893	25,553,864
2002	13,173,122	972,536	1,414,566	9,491,728	3,450,000	14,356,294	(210,636)	-	25,343,228
2003	13,173,122	-	1,317,312	12,941,508	4,200,000	18,458,820	(5,285,698)	-	20,057,530
2004	13,173,122	-	1,317,312	12,941,508	4,200,000	18,458,820	(5,285,698)	-	14,771,832
2005	13,173,122	-	1,317,312	12,941,508	4,200,000	18,458,820	(5,285,698)	-	9,486,134
2006	13,173,122	-	1,317,312	12,941,508	4,200,000	18,458,820	(5,285,698)	-	4,200,436
2007	13,173,122	-	1,317,312	12,941,508	4,200,000	18,458,820	(5,285,698)	-	(1,085,262)

*DPHHS anticipates that 60 percent of the reverted amount will be reallocated.

There are several important assumptions included in Table A-06. The major assumption is the grant award amount and the level of grant after Congressional action to authorize continuation of the appropriation for CHIP for federal fiscal year 2003 and beyond. Another important assumption is that Montana will receive a reallocation of 60 percent of the amounts reverted from the federal fiscal year 2000 and 2001 grants. And finally, there is an assumption that the legislature will appropriate sufficient state funds to fully match projected federal grant expenditures. The CHIP state match is about 19 percent annually during the 2003 biennium.

Based on these assumptions and estimated expenditures, the cumulative total federal grant amount available to spend reaches a high of $25.5 million in federal fiscal years 2000 through 2002. After that point, the cumulative total declines as annual expenditures exceed the grant amount. Finally, the grant is fully expended during federal fiscal 2007.

Major CHIP Expenditures - 2003 Biennium

The majority of the increase in CHIP for the 2003 biennium ($20 million) results from annualization of enrollment in the base program, which increased gradually throughout the 2001 biennium. During the 1999 session, CHIP funding was established based on an anticipated enrollment of 10,283 children. However, due to premium increases, enrollment will be capped at 9,275 children. In November 2000, the CHIP program had a total enrollment of 8,858 children.

The Executive Budget includes a proposal to expand CHIP financial eligibility to 175 percent of the federal poverty level. That expansion also affects the funding level for expanded mental health services provided to children who are CHIP eligible and seriously emotionally disturbed.

Reversion of CHIP Funds

Due to implementation of a small pilot program during the 1999 biennium and incremental implementation to a larger program during the2001 biennium, DPHHS did not fully expend the first two federal CHIP grants. DPHHS expects to revert $5.5 million of the first federal CHIP grant and expects to revert $1.6 million of the second grant. Almost half of the states are reverting funds from the first federal CHIP grant.

Legislation before Congress reallocates the reverted funds: first to states that spent more on the CHIP expansions than was matched by federal CHIP funds; and second to states that reverted funds. Draft legislation under consideration would provide Montana an allotment from the reversion, which is expected to be about $4.5 million from both reversions (or 60 percent).

Executive Budget Structure

The Executive Budget is structured so that the federal CHIP grant funding would be adequate to support a program based on financial eligibility at 175 percent of the federal poverty level through most of federal fiscal year 2007, three years after the current authorization of federal CHIP grants expires. The amounts shown in the table do not include premium increases for the regular CHIP insurance plan and the table caps the amount budgeted and expended for expanded mental health services.

CHIP Expansion

The Executive Budget includes a proposal to expand CHIP financial eligibility from 150 to 175 percent of the federal poverty level in fiscal 2003. This expansion affects two division budgets: Health Policy and Services Division, which administers the CHIP health insurance premium program; and Addictive and Mental Disorders Division, which administers the CHIP mental health services component.

During the 2001 biennium, DPHHS expanded the CHIP program to include mental health services provided through the state funded Mental Health Services Plan (MHSP) for children who were eligible for CHIP and also determined to be seriously emotionally disturbed. The expansion was influenced by substantial general fund cost over-runs in mental health services and the amount of CHIP federal grant funds that were going to be reverted.

During fiscal 2000, MHSP services provided to CHIP eligible children were not routinely billed to the CHIP insurance plan and fewer than one-third of children eligible and funded in MHSP in July 2000 were also enrolled in CHIP. Since financial eligibility for both programs is similar, most children enrolled in MHSP should also have been eligible for CHIP. DPHHS adopted administrative rule changes in late August requiring children to apply for CHIP in order to be eligible for MHSP.

CHIP costs are funded 19 percent from general fund and MHSP is funded almost entirely from general fund. CHIP funding for mental health services accessed through MHSP lowers general fund costs in two ways: 1) offsetting 100 percent of general fund costs through the regular CHIP insurance plan coverage for mental health services up to plan limits; and 2) offsetting 80 percent of general fund expenditures for expanded mental health services costs for CHIP eligible children who exceed the insurance plan caps or who access MHSP services that are not covered by the CHIP insurance plan.

DPHHS is determining the amount of MHSP costs that should have been billed to the CHIP insurance plan and determining whether other MHSP costs could be matched by CHIP funds in fiscal 2000. Legislative staff requested that this information be presented during appropriation subcommittee hearings since the amount of federal CHIP offset could impact the supplemental appropriation request for mental health services and ongoing general fund support of the MHSP program.

Allocation of Federal CHIP Grant - Policy Choices

There are two mutually exclusive public policy choices to be considered in allocating federal CHIP funds for expanded mental health services: 1) the desired level of federal CHIP funding for continuation of the regular insurance plan; and 2) the amount of general fund that can be offset in the MHSP program. The higher the amount of federal CHIP funds allocated to offset general fund costs in MHSP, the less available to fund the regular insurance plan. Table A-07 shows the trade off. Based on DPHHS fiscal 2003 cost estimates, the cost to provide 1 child expanded mental health services would fund regular CHIP health insurance plan coverage for 2.7 children.

Table A-07
CHIP Federal Funding Policy Options
Fiscal 2003 Cost per Child

Program	Fiscal 2003 Average Cost	Children Per $1 Million
CHIP	2,610	383
MHSP	7,704	130
Ratio of CHIP to MHSP	3	3

The estimates in Table A-07 are based on the executive estimates of the average cost of services for a child in MHSP and the annual premium for CHIP in fiscal 2003. The table does not specifically make assumptions about the future inflation in health care costs or mental health services costs. Obviously, if costs for these services inflate at significantly different rates, the funding relationship between the two will change.

LFD ISSUE

It is unknown at this time if the CHIP program will be reauthorized. If the federal government bases reauthorization of CHIP on the block grant amounts spent, the legislature may wish to consider whether to: 1) cap the amount of federal matching CHIP funds that can be expended in MHSP; or 2) maximize federal CHIP funding for mental health services. Legislative staff requested that DPHHS provide an updated estimate of the cost of providing mental health services to a child and the number of children's slots anticipated to be funded during the 2003 biennium. This information should help illustrate the policy choice.

Rent Increases for Non-State Owned Buildings

Several divisions within the DPHHS maintain field offices or staff who are located in rented buildings in Helena. As Table A-08 indicates, requested rent increases for non-state owned office space range from an annual increase of 1.2 percent to 23.6 percent.

Table A-08
Summary of Requested Rent Increases
Non-State Owned Buildings

Division	Fiscal 2000 Base	Executive Budget Request Fiscal 2002	Executive Budget Request Fiscal 2003	Biennial Change	Increase Over Base	Annual Rate of Increase
Human and Community Services	$ 532,729	$ 993,964	$ 1,006,730	$ 935,236	87.8%	23.6%
Child and Family Services	551,316	751,316	751,316	400,000	36.3%	10.9%
Child Support Enforcement	340,955	349,793	353,887	21,770	3.2%	1.2%
Operations and Technology	60,512	60,512	60,512	-	0%	0.0%
Disability Services Division	450,797	605,598	589,279	293,283	32.5%	9.3%
Senior and Long-Term Care	92,521	143,199	159,622	117,779	63.6%	19.9%
Addictive and Mental Disorders	314,857	324,583	334,602	29,471	4.7%	2.0%

Rationale used to justify these increased rent costs are summarized as follows.

- ?? The Human and Community Services Division stated that rent has increased for the counties as other agencies and divisions co-locate with public assistance offices to provide a continuum of services to meet the goals of the public assistance programs.
- ?? The Child and Family Services Division stated that the program experienced a deficit in funding for operational cost in fiscal 2000 that was partially created by inadequate funding of rental increases for the 2001 biennium.
- ?? The Child Support Enforcement Division requests funding for renegotiation of office leases.
- ?? The Disability Services Division requests increases in rental costs to: 1) annualize the increased costs due a change in location for the Great Falls office including a 2 percent per year inflationary increase as included in the lease; 2) fund a $5.58 per square foot increase in rental costs and moving costs associated with relocation of the Billings offices; 3) fund a $2.68 per square foot increase in rental costs that is anticipated when the current Kalispell office lease expires and offices are relocated; and 4) annualize the costs of increased office space acquired by the Disability Determination Office July 1, 2000.
- ?? Senior and Long-Term Care Division requested rent increases for Medicaid program officers and adult protective services workers of 64 percent.
- ?? The Addictive and Mental Disorders Division is requesting increases in the cost of renting the facility that houses the Montana Chemical Dependency Center.

A common rationale for increased rent costs is inflationary increases in current lease agreements. While inflationary factors may be included in leases, most leases and contracts negotiated on behalf of the state contain a clause that indicates future increases depend on availability of funding. The fixed cost increase per square foot of office space for capitol complex office rent that the Executive Budget includes are summarized in Table A-08. Capitol complex office space rent increases 9.9 percent and 2.0 percent in fiscal 2002 and 2003, respectively.

LFD ISSUE Because several divisions maintain office locations across the state, and in some cases division offices outside Helena are housed at the same location, the legislature may wish to apply an agency wide inflation factor to rental costs for non-state owned buildings. The legislature could use the same rate of inflation as applied to capitol complex office space.

Federal Poverty Level Index

Table A-09 shows the 2000 federal poverty level index by family size for various levels of poverty. The index is published each calendar year and updated in February or March. The index has increased 1 to 3 percent annually over the last several years.

Throughout the DPHHS budget analysis there are references to program financial eligibility based on an established level of poverty. The levels of poverty shown in Table A-09 reflect most of the financial eligibility levels for DPHHS programs. CHIP financial eligibility is currently 150 percent of poverty but proposed to increase to 175 percent in fiscal 2003. Financial eligibility for some Medicaid programs for low-income children and pregnant women is established at 133 percent and 100 percent of the federal poverty level. MHSP financial eligibility is established at 150 percent of the poverty level. Chemical dependency services are provided to individuals with incomes below 200 percent of the federal poverty level.

Table A-09
2000 Federal Poverty Index
Levels of Poverty by Family Size

Family Size	<--------------------Poverty Level*---------------------> 100%	133%	150%	175%	200%
1	$8,350	$11,106	$12,525	$14,613	$16,700
2	11,250	14,963	16,875	19,688	22,500
3	14,150	18,820	21,225	24,763	28,300
4	17,050	22,677	25,575	29,838	34,100
5	19,950	26,534	29,925	34,913	39,900
6	22,850	30,391	34,275	39,988	45,700
7	25,750	34,248	38,625	45,063	51,500
Each Additional Person	$2,900	$3,857	$4,350	$5,075	$5,800

*The poverty level is updated annually and historically has increased from 2 to 5 percent.

Long Range Building Proposal

The executive has included construction of a new office building for DPHHS in the long-range building program. The building is estimated to cost $40.7 million and would be financed by general obligation bonds. The debt service would be paid through rental payments by the agencies occupying the building. The Executive Budget estimates the debt service will initially be retired using the following funding distribution:

- ?? 45 percent DPHHS federal special revenue;
- ?? 15 percent DPHHS state special revenue;
- ?? 26 percent DPHHS general fund; and
- ?? 14 percent Department of Transportation state special revenue.

The building is estimated to be about 264,000 square feet including a health lab and would be located near the Department of Transportation. DPHHS would occupy approximately 86 percent of the building and remaining 14 percent or about 37,000 square foot would be occupied by the Department of Transportation. The building would consolidate DPHHS staff in Helena into one building.

LFD ISSUE The appropriations subcommittee may wish to review the proposed new office building. The subcommittee may wish to know proposed costs for: 1) utilities and rent after the building is constructed; 2) relocation costs; and 3) costs for new furnishings.

Interim Study of Public Mental Services

The 1999 legislature passed House Joint Resolution 35 (HJR 35) directing an interim study of public mental health services. The study was undertaken by a subcommittee of the Legislative Finance Committee (LFC) with membership drawn from the LFC, the Interim Committee on Children, Families, Health and Human Services, and the Legislative Audit Committee.

The LFC centered its study on development of appropriate community services. It received testimony on how individuals access mental health services, the strengths and weaknesses of the fee-for-service system, and ways the mental health services could be improved. The recommendations forwarded by LFC to the 57th Legislature arose from testimony it received and research it undertook in pursuit of enhancing community mental health services.

Discussion of this interim study is included in the Legislative Budget Analysis Volume 1.

New Proposals

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

New Proposals	Fiscal 2002					Fiscal 2003				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 10 - Funding of 2 FTE										
05	2.00	0	27,327	53,047	80,374	2.00	0	27,423	53,234	80,657
DP 58 - Early Childhood Services Caseload Adjustment										
02	3.00	0	0	3,186,690	3,186,690	3.00	0	0	6,195,632	6,195,632
DP 87 - Compliance Investigator FTE increa										
07	0.85	18,148	0	21,031	39,179	0.85	16,576	0	22,733	39,309
DP 90 - Claims Adjudication Specialists										
07	2.00	(11,413)	0	(96,158)	(107,571)	2.00	(37,784)	0	(173,583)	(211,367)
DP 91 - Leased Motor Pool Cars										
08	0.00	(375)	0	(825)	(1,200)	0.00	(375)	0	(825)	(1,200)
DP 92 - Commodity Supplemental Food Program										
02	1.00	0	0	335,000	335,000	1.00	0	0	335,000	335,000
DP 93 - REACH Grant										
02	0.00	0	0	500,000	500,000	0.00	0	0	250,000	250,000
DP 94 - Refugee Elderly Grant										
02	0.00	0	0	44,500	44,500	0.00	0	0	44,500	44,500
DP 95 - Fort Belknap Indian Comm. TANF Prog										
02	0.00	0	0	(958,012)	(958,012)	0.00	0	0	(958,012)	(958,012)
DP 96 - AmeriCorps*VISTA Program										
04	0.00	0	70,000	0	70,000	0.00	0	70,000	0	70,000
DP 97 - MTAP Human Services Specialist FTE										
04	1.00	0	36,439	0	36,439	1.00	0	36,566	0	36,566
DP 98 - MTAP Moter Pool Vehicles										
04	0.00	0	4,288	0	4,288	0.00	0	5,566	0	5,566
DP 99 - (SEARCHS) Level of Effort Increase										
05	0.00	0	183,600	356,400	540,000	0.00	0	183,600	356,400	540,000
DP 100 - Financial Institutions Data Match										
05	0.00	0	51,000	99,000	150,000	0.00	0	51,000	99,000	150,000
DP 101 - Criminal Non Support Prosecutions										
05	0.00	0	68,000	132,000	200,000	0.00	0	68,000	132,000	200,000
DP 102 - Highway Traffic Safety Grant										
07	0.00	0	0	83,000	83,000	0.00	0	0	83,000	83,000
DP 103 - Fetal Alcohol Syndrome										
07	0.00	0	0	600,000	600,000	0.00	0	0	600,000	600,000
DP 104 - Health Educator - Women's Health Se										
07	1.00	0	0	54,551	54,551	1.00	0	0	50,719	50,719
DP 107 - MCH Data Analyst Position										
07	1.00	0	0	38,758	38,758	1.00	0	0	36,872	36,872
DP 108 - Bunker Hill Federal Grant										
07	0.00	0	0	200,000	200,000	0.00	0	0	200,000	200,000
DP 109 - Upgrade/Replace WIC Eligi & Ben Sys										
07	0.00	0	0	500,000	500,000	0.00	0	0	1,530,000	1,530,000
DP 110 - Public Health Laboratory										
07	2.00	0	66,926	0	66,926	2.00	0	67,143	0	67,143
DP 111 - Bioterrorism preparedness										
07	1.00	0	0	454,346	454,346	1.00	0	0	454,346	454,346
DP 112 - DDP Federal Authority										
10	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
DP 113 - DDS Workload increase										
10	2.00	0	0	79,201	79,201	2.00	0	0	79,481	79,481
DP 114 - Critical Access Hospital Flex Grant										
08	0.00	0	0	800,000	800,000	0.00	0	0	800,000	800,000
DP 115 - Guardianship, APS Staff, Prevention& Education										
22	4.00	0	336,343	45,250	381,593	6.50	0	351,737	16,795	368,532
DP 117 - Refinance Chemical Dependency Progr										
33	1.00	(4,978)	25,725	2,444,192	2,464,939	1.00	(22,469)	25,809	3,307,177	3,310,517
DP 118 - Foster Care Rate Increase										
03	0.00	221,045	0	119,024	340,069	0.00	227,720	0	122,619	350,339
DP 119 - DD Provider Wage Parity										
10	0.00	835,836	0	805,221	1,641,057	0.00	2,500,534	0	2,422,636	4,923,170
DP 120 - Personal Assistance Direct Care Wage Increase										
22	0.00	211,931	0	569,524	781,455	0.00	448,676	0	1,214,319	1,662,995
DP 121 - Nursing Home Rate Stabilization										
22	0.00	928,002	331,450	3,384,544	4,643,996	0.00	1,379,394	1,195,700	6,969,363	9,544,457

New Proposals

	Fiscal 2002					Fiscal 2003				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 122 - Subsidized Adoption Rate Increase										
03	0.00	387,088	0	363,082	750,170	0.00	812,885	0	762,472	1,575,357
DP 123 - Foster Care Facilities Rate Increase										
03	0.00	120,026	0	64,630	184,656	0.00	127,361	0	68,579	195,940
DP 124 - Ambulance Provider Rate Increase										
07	0.00	97,090	0	260,910	358,000	0.00	99,826	0	270,174	370,000
DP 125 - Dental Provider Rate Increase										
07	0.00	290,435	0	780,491	1,070,926	0.00	382,994	0	1,036,552	1,419,546
DP 126 - Provider Rate Increase - RBRVS/PASS										
07	0.00	271,611	0	729,906	1,001,517	0.00	545,823	0	1,477,241	2,023,064
DP 127 - Hospital Provider Rate Increase										
07	0.00	121,541	197,808	858,190	1,177,539	0.00	51,155	596,000	1,751,491	2,398,646
DP 128 - VR Provider Rate Increase										
10	0.00	61,085	0	108,324	169,409	0.00	123,820	0	219,572	343,392
DP 129 - Provider Rate Increases										
22	0.00	168,662	0	221,761	390,423	0.00	341,386	0	454,173	795,559
DP 130 - Provider Rate Increases 02-03 - Medicaid										
33	0.00	183,843	70,742	684,149	938,734	0.00	459,109	308,300	2,076,954	2,844,363
DP 131 - Psychiatrist Access Rate Increase										
33	0.00	88,285	0	143,546	231,831	0.00	102,309	0	167,189	269,498
DP 135 - Title XX Reduction										
03	0.00	977,234	0	(977,234)	0	0.00	977,234	0	(977,234)	0
DP 136 - Provider Rate Increase - PASARR										
33	0.00	217	0	650	867	0.00	656	0	1,969	2,625
DP 137 - Provider Rate Increase - MHSP										
33	0.00	193,414	0	0	193,414	0.00	586,043	0	0	586,043
DP 138 - Provider Rate Increase - Indigent Y										
33	0.00	2,464	0	0	2,464	0.00	7,465	0	0	7,465
DP 139 - Child Protective Services										
03	18.75	1,538,537	0	525,693	2,064,230	26.00	1,874,608	0	583,074	2,457,682
DP 140 - Waiver Expansion										
22	0.50	249,566	0	632,864	882,430	0.50	553,061	0	1,460,682	2,013,743
DP 141 - DDP Waiting List Reduction										
10	0.00	1,035,965	0	1,203,630	2,239,595	0.00	1,034,389	0	1,211,747	2,246,136
DP 142 - Intergovernmental Transfers										
22	0.00	0	0	1	1	0.00	0	0	1	1
DP 144 - Elimination of Medicaid Asset Test										
07	0.00	416,965	0	373,557	790,522	0.00	414,812	0	375,709	790,521
DP 145 - CHIP Eligibility Increase										
07	0.00	0	0	0	0	0.00	728,418	0	3,057,538	3,785,956
DP 147 - Federal Spending Authority										
22	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
DP 150 - Public Health Preparedness										
07	0.00	75,000	0	0	75,000	0.00	75,000	0	0	75,000
DP 156 - Prevention Resource Center										
04	1.50	30,054	6,279	27,678	64,011	1.50	29,975	6,263	27,607	63,845
DP 174 - Behavioral Health Facilities Start-Up										
33	0.00	350,000	0	0	350,000	0.00	0	0	0	0
DP 192 - DDP Crisis Capacity										
10	0.00	25,000	0	0	25,000	0.00	25,000	0	0	25,000
DP 193 - Law Enforcement & Criminal Justice										
33	1.00	42,219	0	25,332	67,551	1.00	42,324	0	25,395	67,719
DP 200 - Human and Community Services Div Leased Vehicles										
02	0.00	0	0	0	0	0.00	0	0	0	0
DP 200 - Certificate of Need Operations										
07	0.00	23,666	0	0	23,666	0.00	24,613	0	0	24,613
DP 201 - FAIM Phase II										
02	0.00	0	0	29,324,832	29,324,832	0.00	0	0	0	0
DP 203 - DOE Weatherization Training Grant										
02	0.00	0	0	100,000	100,000	0.00	0	0	100,000	100,000
DP 204 - LIEAP Energy Contingency Award										
02	0.00	0	0	579,565	579,565	0.00	0	0	0	0
DP 205 - Child Care Federal Matching Funds										
02	0.00	0	0	1,483,918	1,483,918	0.00	0	0	2,214,918	2,214,918
DP 206 - Food Stamp Cash Benefits										
02	0.00	0	0	51,652,161	51,652,161	0.00	0	0	51,652,161	51,652,161
DP 222 - Older Americans Act Aging Grant Increase										
22	0.00	0	0	825,000	825,000	0.00	0	0	825,000	825,000
DP 302 - Child Protective Services (CPS) Childcare										
03	0.00	350,000	0	0	350,000	0.00	350,000	0	0	350,000
DP 501 - Cost Study of Raising a Child in Montana										

New Proposals

	Fiscal 2002					Fiscal 2003				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
05	0.00	0	8,621	113,793	122,414	0.00	0	0	0	0
DP 700 - Federal Funds for Medicaid Outreach										
07	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
DP 702 - Cardiovascular Health Program - CDC Gran										
07	1.50	0	0	260,902	260,902	1.50	0	0	237,768	237,768
DP 703 - Trauma System Implementation										
07	1.00	0	217,110	0	217,110	1.00	0	217,110	0	217,110
DP 987 - Expansion of CHIP Eligibility to 175% FPL										
33	0.00	0	0	0	0	0.00	0	0	1,000,000	1,000,000
Total	**46.10**	**$9,298,163**	**$1,701,658**	**$107,217,615**	**$118,217,436**	**55.85**	**$14,282,538**	**$3,210,217**	**$97,324,138**	**$114,816,893**

Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	435.95	12.00	4.00	451.95	12.00	4.00	451.95	451.95
Personal Services	16,488,993	156,965	137,725	16,783,683	259,164	138,202	16,886,359	33,670,042
Operating Expenses	8,185,024	(30,447)	8,012,602	16,167,179	(162,836)	155,478	8,177,666	24,344,845
Equipment	111,077	70,500	0	181,577	17,500	0	128,577	310,154
Capital Outlay	6,356	0	0	6,356	0	0	6,356	12,712
Grants	15,085,953	1,300,000	56,271	16,442,224	1,700,000	56,271	16,842,224	33,284,448
Benefits & Claims	55,908,900	3,857,415	78,013,106	137,779,421	3,757,415	59,455,027	119,121,342	256,900,763
Transfers	0	0	28,950	28,950	0	29,221	29,221	58,171
Debt Service	44,855	0	0	44,855	0	0	44,855	89,710
Total Costs	**$95,831,158**	**$5,354,433**	**$86,248,654**	**$187,434,245**	**$5,571,243**	**$59,834,199**	**$161,236,600**	**$348,670,845**
General Fund	19,601,819	(23,657)	0	19,578,162	(190,098)	0	19,411,721	38,989,883
State/Other Special	3,484,798	(86,734)	0	3,398,064	(66,946)	0	3,417,852	6,815,916
Federal Special	72,744,541	5,464,824	86,248,654	164,458,019	5,828,287	59,834,199	138,407,027	302,865,046
Total Funds	**$95,831,158**	**$5,354,433**	**$86,248,654**	**$187,434,245**	**$5,571,243**	**$59,834,199**	**$161,236,600**	**$348,670,845**

Program Description

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

The Public Assistance Bureau administers Montana's welfare reform initiative, known as FAIM (Families Achieving Independence in Montana). The bureau also provides eligibility services for Medicaid, CHIP (Children's Health Insurance Program), and food stamps.

The Early Childhood Bureau: 1) manages the funds which pay for child care for FAIM participants and low-income working families; 2) contracts with 12 resource and referral agencies to administer child care eligibility, provider recruitment, and technical assistance; and 3) administers the Child and Adult Care Food Program which provides reimbursement to providers for the cost of meals served to eligible children.

The Intergovernmental Human Services Bureau administers: 1) the Community Services Block Grant which is used by ten Human Resource Development Councils to provide a wide range of community-based human services; 2) the Low-Income Energy Assistance Program and weatherization program; 3) five other weatherization programs; 4) the Emergency Shelter Grants program; and 5) USDA commodities programs. The bureau stores and distributes USDA commodity foods to a wide range of recipients.

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

Program Narrative

Definition of Terms

Due to the magnitude and uniqueness of the terms used when discussing public assistance (welfare), the following section defines terms used in the program narrative of the Human and Community Services Division (HCSD).

?? Public Assistance - In the past public assistance was more commonly called welfare.

?? PRWORA - The Personal Responsibility and Work Opportunity Reconciliation Act of 1996. This is the landmark legislation that enacted welfare reform at the federal level.

?? AFDC - Aid to Families with Dependent Children was the public assistance (welfare) program in effect prior to the enactment of PRWORA.

?? TANF - The Temporary Assistance for Needy Families block grant funding for welfare programs enacted by the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. TANF funding and programmatic requirements replaced the prior welfare program known as Aid to Families with Dependent Children (AFDC).

- ?? MOE - Maintenance of Effort or the historic expenditure level that states must maintain as a condition of receiving the TANF block grant.
- ?? Percentage MOE - States must spend at least 80 percent of the historical expenditure level in order to receive the TANF block grant. In certain circumstances the state's MOE requirement may be reduced to 75 percent of the historic expenditure level.
- ?? Work Participation Requirement - Federal TANF program legislation specifies that states must assure the federal government that public assistance recipients participate in a minimum number of hours of work related activities. States may define what is included in work activities. TANF regulations specify when this requirement is applicable and non-applicable.
- ?? Assistance - Federal TANF regulations define assistance as benefits directed at basic needs such as food, clothing, shelter, utilities, household goods, and personal care items. Assistance also includes childcare, transportation, and supports for families that are not employed.
- ?? 60 month time limit or time clock - Federal TANF program legislation specifies that public assistance recipients may not receive assistance more than 60 months during their life-time.
- ?? Non-assistance - Items that are not included in the federal definition of assistance. By federal definition assistance excludes:
  - Childcare, transportation, and other supportive services provided to families that are employed;
  - Nonrecurring, short-term benefits designed to deal with a specific crisis situation or episode, not intended to meet recurrent or ongoing needs that do not extend beyond four months;
  - Work subsidies;
  - Refundable earned income tax credits;
  - Contributions to and distributions from Individual Development Accounts;
  - Education or training including tuition assistance;
  - Other services such as counseling, case management, peer support, child care information and referral, transitional service, job retention, job advancement, and other employment-related services that do not provide basic income support; and
  - Transportation provided under a Job Access or Reverse Commute project to an individual who is not otherwise receiving "assistance."
- ?? Carry-over funds - Funds from prior year federal TANF grants that were not expended by the state. Federal regulations limit the use of these funds. Carry-over funds may only be used to pay for services meeting the federal definition of assistance.
- ?? Cash assistance - The cash payment directed toward providing the family's basic needs that recipients of public assistance receive each month.
- ?? FAIM - Families Achieving Independence in Montana - The name that was given to Montana's welfare reform project and TANF program.
- ?? Family - A living unit consisting of a child and parent or an adult caretaker, or a pregnant woman.
- ?? Needy Family - A family that meets the state definition of need as determined by measuring the family income and resources. Federal TANF regulation requires that an income standard be used to determine whether or not a family is needy. Although not required under federal TANF law, states may also use a resource standard to determine whether or not a family is needy. States are not required to use the same income and resource eligibility standards for all TANF funded programs and services. Eligibility standards for cash assistance may be different than eligibility standards for work supports, which may also be different than eligibility standards for other TANF funded programs.
- ?? Eligible - A family that has been determined to meet the income and resource standards defined by the state and thus is qualified to receive services.
- ?? Eligibility Standards - Those income and resource tests and other requirements a family must fulfill in order to be considered qualified to receive publicly funded services.

Overview

The Human and Community Services Division (HCSD) 2003 biennium budget request is $157.0 million higher than the 2001 biennium. Present law adjustments add $10.9 million. Present law adjustments increasing costs are offset against a reduction in the base budget due to an accounting error, creating a net decrease in general fund of over $200,000. New proposals add $146.1 million, with no increase in general fund. Of that total, $103.3 million is due to an accounting change for food stamp benefits.

The most significant changes in the Executive Budget request are:

?? Food Stamp Cash Benefits, $103.3 million for benefits that were previously non-budgeted activity;
?? Families Achieving Independence in Montana (FAIM) Phase II, $29.3 million;
?? Early Childhood Services Caseload adjustment, $9.4 million;
?? TANF benefits funding adjustment, $5.3 million;
?? Childcare Matching funds, $3.7 million;
?? Child and Adult Food Care Program, $3.3 million;
?? Correction of accounting system error, $2.8 million reduction;
?? Intergovernmental Human Services Bureau programs, $2.1 million;
?? A reduction in federal TANF funds due to the Fort Belknap Indian Community implementation of a tribal TANF plan, $1.9 million; and
?? Inflationary cost adjustments for assumed and non-assumed counties of $1.5 million.

Table 1 shows the 2003 biennium budget request by sub program compared to fiscal 2000 actual expenditures. General fund slightly declines over this period, and declines as a percent of the total budget from 20.5 percent in fiscal 2000 to 12.0 percent in fiscal 2002. The decrease in general fund as a percent of total funds is primarily due to significant increases in federal funds, including requests for an additional $29.3 million for FAIM Phase II and $103.3 million for food stamp cash benefits that are funded entirely with federal funds.

Table 1
Fiscal 2000 Expenditures Compared to Executive Budget Request by Major Function
Human and Community Services Divison

	Fiscal 2000				Fiscal 2002				Fiscal 2003				
Function	General Fund	SSR	Federal Funds	Total Funds	General Fund	SSR	Federal Funds	Total Funds	General Fund	SSR	Federal Funds	Total Funds	Percent of Total
Public Assist/Self Sufficency/ Eligibility Determination	$ 17,135,749	$ 3,480,960	$ 31,347,177	$ 51,963,886	$ 17,013,716	$ 3,394,313	$ 114,613,286	$ 135,021,315	$ 16,947,218	$ 3,414,094	$ 85,242,764	$ 105,604,076	65.5%
Energy Assist. and Commodities	108,702	3,838	12,813,675	12,926,215	208,046	3,751	15,292,980	15,504,777	108,103	3,758	14,468,774	14,580,635	9.0%
				-				-				-	
Early Childhood Services	2,357,368	-	28,583,689	30,941,057	2,356,400	-	34,551,753	36,908,153	2,356,400	-	38,695,489	41,051,889	25.5%
				-				-				-	
Total	$ 19,601,819	$ 3,484,798	$ 72,744,541	$ 95,831,158	$ 19,578,162	$ 3,398,064	$ 164,458,019	$ 187,434,245	$ 19,411,721	$ 3,417,852	$ 138,407,027	$ 161,236,600	100%
												-	
Percent of Total Budget	20.5%	3.6%	75.9%	100.0%	10.4%	1.8%	87.7%	100.0%	12.0%	2.1%	85.8%	100.0%	

TANF

The Temporary Assistance for Needy Families (TANF) block grant was established by the Personal Responsibility and Work Opportunity Reconcilation Act (PRWORA) of 1996. Montana receives approximately $45.5 million per year in federal TANF funds. After the reduction due to implementation of Tribal TANF plans, the state's grant award is approximately $43.3 million.

In order to receive the TANF grant, the state must continue to spend general fund and state special revenue at a specified level (80 percent) of historic (federal fiscal 1994) expenditures for certain Aid to Families with Dependent Children (AFDC) related programs. This historic expenditure level is commonly known as the Maintenance of Effort (MOE) level. If the state meets the work participation requirements of welfare reform, the state may reduce its MOE to 75 percent of historic expenditures. The 1999 legislature budgeted TANF MOE at 77 percent or approximately $15.5 million. An expenditure summary and summary of TANF grant awards are included in Table 2.

Table 2
Temporary Assistance of Needy Families (TANF) Summary

DESCRIPTION	1997 GRANT	1998 GRANT	1999 GRANT	2000 GRANT	2001 GRANT	2002 GRANT	2003 GRANT
Summary of Federal Funds							
TANF Block Grant by State Fiscal Year	$ 21,272,258	$ 47,763,385	$ 45,767,143	$ 45,491,822	$ 45,500,000	$ 45,500,000	$ 45,500,000
Less Salish-Kootenai Tribal TANF Plan	0	0	(599,709)	(1,199,418)	(1,199,418)	(1,199,418)	(1,199,418)
Subtotal	$ 21,272,258	$ 47,763,385	$ 45,167,434	$ 44,292,404	$ 44,300,582	$ 44,300,582	44,300,582
Less Fort Belknap Indian Community	-	-	-	-	(718,509)	(958,012)	(958,012)
Revised TANF Grant by State Fiscal Year	$ 21,272,258	$ 47,763,385	$ 45,167,434	$ 44,292,404	$ 43,582,073	$ 43,342,570	$ 43,342,570
Federal Expenditures by State Fiscal Year	$ 14,730,474	$ 29,897,481	$ 25,150,387	$ 29,115,497	$ 31,298,490	$ 61,263,871	$ 31,983,465
Transfer to CCDF	5,657,669	7,000,000	5,500,000	7,612,239	7,612,239	7,612,239	9,372,239
Transfer to Title XX	774,065	2,850,000	-	4,250,000	1,852,238	1,842,059	1,842,059
Total Federal Expenditures/Transfers	$ 21,162,208	$ 39,747,481	$ 30,650,387	$ 40,977,736	$ 40,762,967	$ 70,718,169	$ 43,197,763
Annual Carry-over Funds	$ 110,049	$ 8,015,904	$ 14,517,047	$ 3,314,668	$ 2,819,106	$ (27,375,599)	$ 144,807
Cummulative Carry-over Funds		$ 8,125,953	$ 22,643,000	$ 25,957,668	$ 28,776,774	$ 1,401,175	$ 1,545,981
Maximum Amount of Transfers:							
Both Child Care and Title XX (30%)	$ 6,381,677	$ 14,329,015	$ 13,550,230	$ 13,287,721	$ 13,074,622	$ 13,002,771	$ 13,002,771
Title XX (10% until FFY 2001then 4.25%)	$ 2,127,226	$ 4,776,338	$ 4,516,743	$ 4,429,240	$ 1,852,238	$ 1,842,059	$ 1,842,059

Final TANF regulations were effective October 1, 1999. The final regulations provide states a great deal of flexibility in spending TANF and MOE funds. TANF funds may be spent in any way that fulfills one of the purposes included in the federal regulation. The four purposes of the TANF program as contained in federal legislation are:

1) To provide assistance to needy families;
2) To end dependence of needy parents by promoting job preparation, work and marriage;
3) To prevent and reduce out-of-wedlock pregnancies; and
4) To encourage the formation and maintenance of two-parent families.

Services provided that fulfill the first or second purpose of TANF require the family to meet the state definition of a needy family. Services provided that fulfill the third or fourth purpose of TANF may be provided to both needy and non-needy families as long as objective criteria are used to determine eligibility to receive the service. The regulations governing the expenditure of TANF and MOE funds are lengthy and complex, which makes it impractical to discuss the multitude of options in this document. However, it is important to remember that federal guidance on the expenditure of TANF and MOE funds stresses extraordinary flexibility in the use of these funds, and that states should assume that funds may be used in innovative ways to achieve the goals contained in the TANF legislation.

Tribal TANF Plan

The Executive Budget includes a reduction in the TANF grant of $1.9 million federal funds due to the implementation of a Tribal TANF plan by the Fort Belknap Indian Community. The Fort Belknap Indian Community began operating a tribal TANF plan on October 1, 2000. Federal TANF regulations provide that a tribal government may chose to operate its own TANF plan rather than being included in the state TANF plan. When a tribe chooses to operate a Tribal TANF plan, the state's TANF grant is reduced. Montana's $45.5 million TANF grant has been reduced to $43.3 million due to the implementation of Tribal TANF plans by two tribes, the Fort Belknap Indian Community in the 2001 biennium and the Salish and Kootenai Tribes in the 1999 biennium.

Table 3
Temporary Assistance for Needy Families (TANF)
Maintenance of Effort Summary

DESCRIPTION	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
Summary of Maintenance of Effort (Fiscal 2001 - 2003 estimated at Fiscal 2000 level)							
Total General Fund Maintenance of Effort	$ 5,780,263	$ 16,328,485	$ 15,220,103	$ 14,641,409	$ 14,641,409	$ 14,641,409	$ 14,641,409
Total County Fund Maintenance of Effort	819,875	1,891,112	1,282,966	1,106,246	1,106,246	1,106,246	1,106,246
Total Maintenance of Effort Expended	$ 6,600,138	$ 18,219,597	$ 16,503,069	$ 15,747,655	$ 15,747,655	$ 15,747,655	$ 15,747,655
		83%	77%	77%	77%	77%	77%
MOE Requirement	$ 6,600,000	$ 17,362,996	$ 15,851,056	$ 15,709,540	$ 15,454,750	$ 15,370,214	$ 15,370,214
Difference	$ 138	$ 856,601	$ 652,013	$ 38,115	$ 292,905	$ 377,441	$ 377,441
Reduction in MOE due to FBIC Tribal Plan					$ (254,790)	$ (339,326)	$ (339,326)
General Funded Needed to Implement 1999 Session HB 551							
Proportionate Share Cash Benefits MOE (estimated based upon fiscal note to HB)					$ 208,163	$ 277,229	$ 277,229
General Fund Support (from existing appropriation authority)						100,000	100,000
Total Existing General Fund Appropriation Committed per HB 551					$ 208,163	$ 377,229	$ 377,229

LFD ISSUE

Federal TANF regulations also provide for a reduction in the state's MOE (summarized in Table 3) proportional to the reduction in the federal grant due to the implementation of a Tribal TANF plan. Table 4 illustrates the MOE requirement before any Tribal TANF plan was implemented and the impact of the implementation of Tribal TANF plans by two tribes in Montana on the MOE requirement.

At 77 percent, the MOE is reduced $340,000 annually, from $15.71 million to $15.37 million. Because the Executive Budget does not include a reduction in the MOE requirement, the legislature may wish to reduce the 2003 biennium general fund support for the HCSD by $680,000 due to the reduction in the MOE requirement.

Table 4
TANF Maintenance Of Effort Requirement
In Millions

Percentage	Before Tribal Withdrawal	After S&K Withdrawal	After FBIC Withdrawal
100%	$ 20.955	$ 20.402	$ 19.961
83%	17.392	16.934	16.568
80%	16.764	16.322	15.969
77%	16.135	15.710	15.370
75%	15.716	15.302	14.971

S&K, Salish and Kootenai Tribes
FBIC, Fort Belknap Indian Community

LFD ISSUE

HB 551, passed by the 1999 legislature, requires that the department transfer to a tribe for use implementing a Tribal TANF plan:

A proportionate state share for cash assistance based on the MOE; and
$100,000 general fund for each of the fiscal years of the succeeding biennium after implementation. HB 551 states that this $100,000 is to be funded from existing appropriation authority.

The reimbursement to the Fort Belknap Indian Community in accordance with HB 551 is estimated to be approximately $750,000 (table 3) for the 2003 biennium. Because state funds paid to a tribe may count toward the state's MOE requirement, the department could fund the expenditures directed by HB 551 as part of the $15.37 million MOE expenditures. The legislature may wish to direct the department to fund the reimbursement to the Fort Belknap Indian Community as part of the MOE. Using general fund MOE to reimburse the Fort Belknap Indian Community would not impact the services supported by MOE because the department could use TANF funds for those services instead of general fund.

TANF Transfers:
The state may transfer up to 30 percent of the TANF block grant into either the Child Care Development Fund (CCDF) or Title XX, the Social Services Block Grant. The CCDF is the federal program providing block grants funds to states to support childcare services for low income families. Title XX is a federal grant that may be used to provide a number services designed to meet the needs of children, the aged, the mentally retarded, the blind, the emotionally disturbed, the physically handicapped, alcoholics and drug addicts. Montana uses the entire Title XX grant to fund services for the developmentally disabled. Funds transferred into either of these two programs assumes the attributes of the program into which they are transferred except that TANF funds transferred to Title XX may only be used to serve children and families whose income is less than 200 percent of the federal poverty level for the family size. Transfers of TANF funds to CCDF and Title XX are summarized in the TANF Summary, table 2.

Beginning in October 2000, federal regulations limit the amount of TANF funds that may be transferred to Title XX to 4.25 percent of the TANF grant, or approximately $1.8 million per year. Prior to October 2000 states could transfer up to 10 percent of the TANF grant to Title XX.

LFD ISSUE

TANF funds transferred to Title XX were used to support foster care services in the Child and Family Services Division and services for the developmentally disabled in the Disability Services Division. In fiscal 2000, $2.1 million was used to support foster care services and $1.4 million was used in the Disability Services Division, to replace a reduction in the federal Title XX grant that Montana received. The Executive Budget includes a reduction of Title XX support for foster care services and an increase in general fund support of almost $2.0 million resulting in Title XX support for foster care services of approximately $2.7 million for the biennium. Table 5 summarizes the potential transfers from TANF to Title XX and the planned expenditures of these funds. If the department makes the maximum allowable transfer in all current and future fiscal years, there are potentially $2.2 million TANF funds transferable to Title XX that are not specifically identified in the Executive Budget as being expended. However, the HCSD TANF spending plan includes the assumption that the maximum transfer from TANF to Title XX will be made.

The Executive Budget for the Disability Services Division assumes that: 1) the Title XX grant in the 2003 biennium will be $6.7 million annually, the level of combined Title XX funds and TANF funds transferred to Title XX that were expended in fiscal 2000; and 2) the Title XX grant will not be reduced further. If the Title XX grant in the 2003 biennium remains at the level realized in fiscal 2000, the DSD will need approximately $2.8 million in the 2003 biennium to maintain services at the fiscal 2000 level. The Executive Budget does not include a specific recommendation regarding how disability services would be maintained at the fiscal 2000 level in the event that Congress reduces funding for the Title XX grant. Options for utilizing the $2.2 million of TANF funds transferred to Title XX that are not specifically allocated in the Executive Budget include:

Table 5
Summary of TANF Transfers to Title XX

Grant Year	TANF Grant Transferred to Title XX	Expended for Disability Svcs By Fiscal Year Expended	Expended for Foster Care Svcs By Fiscal Year Expended	Total Expended By Fiscal Year Expended
1997 Grant	$ 774,065	$ -	$ -	$ -
1998 Grant	2,850,000	-	-	-
1999 Grant	-	774,065	-	774,065
2000 Grant	4,250,000	1,400,000	2,068,307	3,468,307
2001 Grant	1,835,256	1,400,000	2,850,000	4,250,000
2002 Grant	1,825,077	-	1,303,503	1,303,503
2003 Grant	1,825,077	-	1,359,931	1,359,931
Total	$ 13,359,475	$ 3,574,065	$ 7,581,741	$ 11,155,806
Funds Transferred to Title XX but not Expended				$ 2,203,669

1) In the event the Title XX grant is less than $6.7 million per year included in the Executive Budget, partially offset the shortfall;
2) Reduce the general fund needed to support foster care services;
3) Reduce general fund support for developmental disability services; or
4) Expand services. The TANF spending plan prepared by the Human and Community Services Division does not detail how TANF funds transferred to Title XX will be expended but does assume that the maximum allowable transfer to Title XX will be made. So if transferred funds are not used to support existing service levels, they may be used to expand services.

The legislature may wish to prioritize the use of TANF funds transferred to Title XX, and make the priority contingent upon the funding level realized for the Title XX grant.

TANF Funds Carry-over

Final regulations for the TANF program were published in April 1999. These final regulations limit states use of federal funds "carried over" from prior year grants. "Carry-over" funds may only be used to pay costs defined within federal regulations and guidance as "assistance" and the related administrative cost of providing assistance. No such restriction applies to the use of current year TANF funds. The effect of this regulation was to limit the state's flexibility in the use of carry-over funds.

Historically, cash assistance benefits have been funded from a combination of general fund, state special revenue (county funds), and federal funds. In order to retain the maximum flexibility in use of TANF funds allowed by federal regulation, the department decided to fund cash assistance costs entirely from TANF "carry-over" funds. This policy was implemented October 1, 1999. The Executive Budget includes a request of $4.9 million federal funds for the biennium to annualize this change into the 2003 biennium budget.

LFD ISSUE

As discussed in the preceding paragraphs, the department has made and implemented a policy change in the funding of cash assistance. This was a significant policy change, which also resulted in changes in the services funded from the general fund MOE. Under current regulations, the maximum flexibility in the use of TANF funds is possible when carry-over funds are used for payments meeting the federal definition of assistance. Rather than allowing the department to decide whether or not to fund assistance payments from carry-over funds, the legislature may wish to direct the department to continue this practice so that maximum flexibility in the use of TANF funds may be achieved. Manipulation of the policy regarding funding of assistance from carry-over funds can limit the amount of TANF funds available to fund non-assistance services.

LFD ISSUE

The 1999 legislature directed the department to maintain a TANF reserve fund of $8.35 million for use in the event of economic downturn or difficulty meeting work participation rates. As outlined in Table 2, if the expenditure of federal TANF funds is approved as submitted in the Executive Budget, TANF grants for all years would be fully expended by the end of the 2003 biennium. Because the current authorization of the TANF grant expires in fiscal 2003 (September 2002) and the program will require reauthorization by Congress, it may be beneficial to expend all TANF funds prior to reauthorization, rather than returning unexpended funds to the federal government. While it is unknown what will occur when Congress considers reauthorization, the large surpluses of unexpended funds lead most analysts to believe that TANF grants will be reduced when reauthorization occurs.

However, this policy decision, and the commitment of TANF funds to support services other than cash assistance, must be balanced and fluid enough to provide for revisions in the event of an economic downturn or an event that increases the need for cash assistance.

The legislature may wish to:

1) Consider whether or not a TANF reserve should be maintained, since TANF authorization by Congress expires September 30, 2002; or
2) Provide a mechanism to assure that federal funds are expended to prevent returning federal TANF funds to the federal government at the end of the TANF grant authorization period (September 2002).

FAIM Phase II
Montana implemented welfare reform in February 1997. Those FAIM recipients who have continued to participate in the program since the beginning of welfare reform will reach the life-time limit of 60 months of assistance in February 2002. The department currently estimates 80 to 90 cases are nearing (within 18 months) the life-time limit on assistance payments. As welfare reform continues and significant events such as reaching life-time limits on assistance and reauthorization of TANF at the federal level approach, the department has developed a revised FAIM program titled FAIM, Phase II.

The HCSD gathered information regarding the successes and failures of FAIM to date, and the desires for FAIM in the future by holding twenty-five public meetings statewide. At these meetings participants were asked to discuss FAIM and share their wants, desires, criticisms, and accolades. Based upon information gathered through these public meetings, eleven focus groups were identified and created to work on specific issues. The FAIM Phase II proposal included in the Executive Budget is the end result of the process led by the HCSD.

Table 6
Summary of FAIM Phase II Expenditures
As Included in Executive Budget Request

Project Title	Fiscal 2002	Fiscal 2003	Biennium
In-depth Assessments	$ 1,545,562	$ 1,545,562	$ 3,091,124
Sanction Adjustments	677,735	677,735	1,355,470
Vehicle Ownership	800,000	800,000	1,600,000
Eliminate Community Services			-
Program	125,000	125,000	250,000
Non-assistance for Working			-
Families	4,741,971	4,741,971	9,483,942
Individual Devlopment Accounts	180,161	220,161	400,322
Child Support Pass-through	-	1,250,000	1,250,000
Caretaker Relative Grants	2,473,704	2,473,704	4,947,408
Intensive Family Support and			-
Local Needs	1,723,283	1,723,283	3,446,566
Electronic Benefits Transfer (EBT)			-
for Cash Assistance	-	500,000	500,000
TEAMS Reprocurement	2,000,000	1,000,000	3,000,000
Total	$ 14,267,416	$ 15,057,416	$ 29,324,832

Notes:
TEAMS is The Economic Assistance Management System
DPHHS has proposed funding all of these projects from federal TANF fund.
DPHHS has requested the funding be appropriated in a biennial appropriation.

Table 6 summarizes the components of FAIM Phase II and each component's portion of the $29.3 million total federal funds requested. The components of FAIM Phase II provide: 1) continued support to low-income working families so they may continue working and stabilize their income; 2) more services to help families divert from the public assistance system altogether; and 3) earlier and more intensive services to those with the most severe barriers to employment.

?? In-depth Assessments could be provided when families first apply for assistance so that barriers to employment are identified.
?? Sanction Adjustments are proposed that would allow families to come into compliance with program requirements and have benefits reinstated. The department expects that the redesign of sanctions will result in additional benefit costs.
?? Vehicle Ownership supports a car purchasing program.
?? Community Services Program would be changed to provide intensive services to families in the community services program so they may move more quickly toward employment.
?? Non-Assistance for working families would provide services and benefits to low income working families. Under TANF regulations services and benefits that are not considered assistance under federal definitions may be provided to families without federal requirements such as the 60-month time limit and work participation rates applying. The department proposes providing services and/or cash vouchers to families so that they may overcome emergencies that arise.
?? Individual Development Accounts (IDA) is a pilot project to provide incentives to families to save money. Funds in an IDA would be used toward the purchase of a home or business, or for post-secondary education.
?? Child Support Pass-Through would support the Child Support Enforcement Division in the event federal regulations change and more child support income is passed-through to families rather than being maintained by the state and federal government to support the costs of collecting child support. Federal legislation on this issue is pending.
?? Caretaker Relative Grants is a change in the benefit amount paid on behalf of children being cared for by relatives. Currently, a family caring for a relative's child receives approximately $100 per month to provide for the child's needs. This proposal would increase the caretaker relative grant to approximately $270 per month.
?? Intensive Family Support and Local Needs would provide additional services at the local level to address the needs of families with multiple barriers to employment.
?? EBT Cash Assistance implements electronic benefit transfer (EBT) of cash assistance benefits. The department envisions including cash assistance benefits on the same magnetic card as food stamp benefits. Recipients would use the card to withdraw cash at an ATM machine or could have their cash assistance benefits deposited directly into their bank account.
?? Re-procurement of TEAMS - The Executive Budget requests $3 million federal TANF funds to replace or significantly enhance The Economic Assistance Management System (TEAMS).

LFD ISSUE

Individual Development Accounts (IDA) – The Executive Budget includes a pilot project for IDA. The legislature may wish to direct the department to make IDA available statewide to allow as many families as possible to experience the benefits of a savings account and work toward goals such as post-secondary education and home ownership, that may be funded with IDA savings.

LFD ISSUE

Re-procurement of TEAMS – Currently the cost of the TEAMS system maintenance contract is within the Operations and Technology Division budget and the Operations and Technology Division oversees system maintenance and development of all major systems within DPHHS. For this reason, the Legislative Fiscal Division (LFD) questions inclusion of this item in the HCSD.

The Executive Budget funds the re-procurement or enhancement of the TEAMS system entirely with federal TANF funds. However, in accordance with federal regulations, the costs of re-procurement or significant changes to TEAMS must be cost allocated to all programs benefiting from the activity. In the event of re-procurement or replacement of the TEAMS system, there would be costs attributable to programs other than cash assistance (or TANF) such as Food Stamps and Medicaid, since TEAMS also supports eligibility determination processes for these programs.

LFD ISSUE CONTINUED

The costs of significant enhancement or re-procurement of TEAMS should be allocated to the general fund and federal food stamp and Medicaid program funds as well as to TANF. The TEAMS facility management costs included in the Operations and Technology Division budget are funded on a 50/50 state/federal cost-sharing basis. Using TANF funds to support non-TANF activities (Medicaid and Food Stamp programs) would be a violation of federal regulations and could result in financial penalties being imposed upon the state.

LFD COMMENT

Documentation provided by the HCSD indicates that the department plans to implement a separate state program using $961,000 general fund MOE dollars to support a program providing cash assistance for some families who exceed the 60-month life-time limit on TANF assistance.

LFD ISSUE

Services Provided by Other Divisions - TANF funds may be used to support a wide variety of programs that could include in-home services, after school activities, preparation for employment, substance abuse prevention and counseling, and non-medical services such assessments, case management, and marriage counseling. Federal legislation does not define what constitutes a medical or non-medical service. Definition of these terms is left to the states.

The legislature may wish to encourage the use of TANF funds and coordination of programs with similar goals that are administered by various divisions within the department. For example, the legislature may wish to direct the department to develop a coordinated effort for the funding and provision of in-home and family support services to families receiving services from the HCSD and the Child and Family Services Division as well as other divisions within the department. The legislature may also wish to adopt a definition of non-medical services and direct the department to use TANF funds to support non-medical mental health and substance abuse services provided by the Addictive and Mental Disorders Division.

Summary

The legislature may wish to take all, some, or none of the following actions regarding FAIM Phase II.

1) Seek public comment on the various components of FAIM Phase II.
2) Ask the HCSD what items/issues identified through the public process used to develop FAIM Phase II were not included in the FAIM Phase II plan and why?
3) Add or delete items from the Executive Budget proposal for funding as part of FAIM Phase II.
4) Direct the department to widen the proposal for Individual Development Accounts (IDA) to a statewide project rather than a pilot project.

The legislature may also wish to take all, some, or none of the following actions with regard to use of TANF funds.

1) Provide the department guidance on the definition of non-medical services, and allocate TANF funds to be used to provide non-medical services in coordination with the Addictive and Mental Disorders Division.
2) Fund all or a portion of some services (such as in-home services, family group conferencing, and visitation services) provided by the Child and Family Services Division with TANF funds.
3) Prioritize, in order of importance, the funding of items included in FAIM Phase II and other proposals arising during the course of discussion of FAIM Phase II.
4) Restrict or not permit the funding of certain items.
5) In FAIM Phase II the Executive Budget proposes increasing expenditures by $29.3 million in the 2003 biennium. If this increased expenditure level is not achieved, federal funds may be returned and consumers may experience needs that are not met. In order to provide assurances that the requested level of expenditure is achieved, the legislature may wish to:
    a. Establish and/or mandate timeframe and expenditure level mile markers for the expenditure of TANF funds; and
    b. Provide that unexpended funds be diverted to a prioritized list of proposals.

Funding

The HCSD is funded by a combination of general fund, state special revenue (county reimbursements) and federal funds. General fund provides:

1) Maintenance of Effort (MOE) for TANF and CCDF grants; and
2) Matching funds for federal programs including food stamp and Medicaid programs.

County Funds

Historically, counties have shared in the costs of human services programs as outlined in 53-2-304 MCA. Those counties that choose to be state-assumed levy 9 mills and forward the proceeds from those mill levies to the state. There has been no change in the manner in which assumed counties contribute to human services programs.

Prior to the implementation of welfare reform, non-assumed counties were responsible for the non-federal share of administrative and indirect costs (50 percent) and approximately six percent of the costs of Aid to Families with Dependent Children (AFDC) benefits. Because welfare reform changed welfare program funding from cost sharing with the federal government to a block grant requiring a set maintenance of effort (MOE), the methodology for county contributions to welfare costs required change.

The 1999 legislature passed HB 676, which amended 53-2-304 MCA, and limited the amount a county is required to reimburse the department for the salaries, travel expenses, indirect costs, and allocated administrative costs for one state fiscal year to the dollar amount that the county paid as its share of cash assistance and emergency assistance programs in 1996. For public assistance programs other than cash assistance and emergency assistance, the county reimburses the department the full amount of salaries, travel expenses, and allocated direct and indirect administrative costs attributable to the public assistance program not reimbursed to the department by the federal government. The provisions of HB 676 included in 53-2-304 MCA, terminate on June 30, 2001.

Table 7
Human and Community Services Division Funding Summary

Fund Source	Fiscal 2000 Base Budget	Budget Request Fiscal 2002	Fiscal 2003	Percent of Total
General Fund	$ 19,601,819	$ 19,578,162	$ 19,411,721	12.0%
Percent of Total	20.5%	10.4%	12.0%	
State Special Revenue				
County Reimbursements	$ 3,074,959	$ 3,087,181	$ 3,106,960	1.9%
FAIM Financial County	309,839	309,752	309,759	0.2%
Food Steam Recoupment Act	100,000	1,131	1,133	0.0%
Subtotal State Special Revenue	$ 3,484,798	$ 3,398,064	$ 3,417,852	2.1%
Percent of Total	3.6%	1.8%	2.1%	
Federal Funds				
BPA	$ 231,591	$ 303,630	$ 303,663	0.2%
Discretionary Childcare	12,171,168	15,254,287	18,262,908	11.3%
TANF Administration	61,002	144,760	145,366	0.1%
TANF Benefits	20,856,570	51,791,795	22,467,903	13.9%
Child Nutrition	9,214,167	10,554,441	10,957,002	6.8%
Childcare Mandatory/MOE	3,142,626	3,140,175	3,140,175	1.9%
Childcare Administration	326,246	381,188	382,742	0.2%
Childcare Matching	3,589,753	5,071,365	5,802,365	3.6%
TANF Evaluation	37,697	33,581	33,757	0.0%
Cost Allocation	8,988,391	8,783,921	8,730,618	5.4%
Reach	0	500,000	250,000	0.2%
Aging Supportive Service Grant	36,152	35,333	35,395	0.0%
Refugee Social Service	87,077	77,695	77,695	0.0%
Headstart	93,729	150,297	150,297	0.1%
Food Stamp Employment/Train. 50	211,507	239,222	239,702	0.1%
Food Stamp Employement/Train.100	407,014	933,216	944,291	0.6%
Food Stamp Administration	554,534	52,392,563	52,386,131	32.5%
Emergency Food Assistance 100	152,387	170,711	170,845	0.1%
Food Distribution Federal Expense	1,499,066	1,835,432	1,837,991	1.1%
Emergency Shelter	456,102	456,404	456,426	0.3%
Weatherization Benefits	1,403,353	1,773,370	1,773,830	1.1%
Refugee Resettlement	13,772	55,404	55,555	0.0%
LIEAP Block Grant Administration	6,473,164	7,277,354	6,698,914	4.2%
CSBG Administration	2,558,022	2,601,995	2,602,952	1.6%
Title XX Social Services Block Grant	46,000	0	0	0.0%
Medicaid Administration	133,451	120,380	121,004	0.1%
Elderly Refugee Grant	0	44,500	44,500	0.0%
CSFP	0	335,000	335,000	0.2%
Subtotal Federal Funds	$ 72,744,541	$ 164,458,019	$ 138,407,027	85.8%
Percent of Total	75.91%	87.74%	85.84%	
Total Funds	$ 95,831,158	$ 187,434,245	$ 161,236,600	100.0%

In summary, non-assumed counties are currently obligated to reimburse the state for:

- 50 percent of the salaries, travel, and allocated direct and indirect administrative costs of the cash assistance and emergency assistance program up to the dollar amount the county paid as its share of these costs in 1996; and,
- the non-federal share of salaries, travel and allocated direct and indirect administrative costs attributable to public assistance programs other than cash assistance and emergency assistance.

Study Required

The 1999 legislature included language in HB 2 directing the department to present a plan to the 57th legislature to create a uniform statewide system of funding for: 1) TANF maintenance of effort; 2) eligibility determinations for cash assistance, food stamps, and Medicaid programs; and 3) foster care program costs. The legislature directed that the plan: 1) provide a predictable and adequate source of funding; and 2) eliminate the historic distinction in funding human services costs between assumed and non-assumed counties.

Pending and Possible Legislation

The department worked with the Local Government Funding and Structure Committee to include revisions to the funding of public assistance programs in a bill proposed by the committee (LC 5001). The bill proposed by the Local Government Funding and Structure Committee provides that city and county government would forward certain tax revenues (gambling, alcohol, motor-vehicle) to the state. The state would provide an entitlement or grant that local governments could utilize at their discretion. Under this proposal, human services costs that have historically been funded with county funds or the nine-mill levy in the case of assumed counties would be funded by general fund. County governments would maintain funds they are currently providing to the state for public assistance programs at the local level.

Department staff also worked with the Montana Association of Counties (MACo) to develop legislation that would fulfill the directive included in HB 2. Based upon the discussions with MACo the department may support legislation that requires non-assumed counties to contribute to public assistance costs at an amount equal to the average of the five years from fiscal 1995 through fiscal 1999. The department estimates this option would require an additional appropriation of $1.5 million general fund. However, because the legislation is in draft form, these cost estimates are subject to change. The Executive Budget does not include a decision package requesting additional general fund in the event this legislation is adopted. Department staff stated they had also worked with MACo to develop legislation that would clarify management and authority regarding local control and public assistance programs.

In addition to the legislation discussed above, the department is seeking legislation changing public assistance statutes and providing the department with rule making authority.

Present Law Adjustments	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					4,988					108,428
Vacancy Savings					(447,137)					(450,240)
Inflation/Deflation					(6,570)					(4,177)
Fixed Costs					15,229					17,759
Total Statewide Present Law Adjustments					**($433,490)**					**($328,230)**
DP 8 - Refugee Resettlement	1.00	0	0	43,116	43,116	1.00	0	0	43,267	43,267
DP 9 – Child and Adult Care Food Program PL Ad	3.00	0	0	1,429,346	1,429,346	3.00	0	0	1,829,803	1,829,803
DP 59 - TANF and MOE Present Law Adjustment	6.00	0	0	2,657,942	2,657,942	6.00	0	0	2,658,937	2,658,937
DP 61 - IHSB Present Law Adjustment	1.00	100,000	0	1,022,955	1,122,955	1.00	0	0	1,022,955	1,022,955
DP 63 - Food Stamp Adjustments	1.00	72,357	0	595,227	667,584	1.00	74,374	0	597,394	671,768
DP 69 - County TANF, Food Stamp, and Medicaid	0.00	399,248	0	409,249	808,497	0.00	362,350	0	372,351	734,701
DP 78 - Public Assistance Administration	0.00	225,519	0	227,020	452,539	0.00	165,299	0	166,799	332,098
DP 202 - SABHRS System Adjustment	0.00	(697,028)	0	(697,028)	(1,394,056)	0.00	(697,028)	0	(697,028)	(1,394,056)
Total Other Present Law Adjustments	**12.00**	**$100,096**	**$0**	**$5,687,827**	**$5,787,923**	**12.00**	**($95,005)**	**$0**	**$5,994,478**	**$5,899,473**
Grand Total All Present Law Adjustments					**$5,354,433**					**$5,571,243**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 8 - Refugee Resettlement - This decision package requests $86,000 federal funds for the biennium to fund 1.00 FTE, grade 15 Human Service Specialist to manage the Refugee Resettlement Program. The HCSD used a modified position during fiscal 2000 to administer the programs. Expenditures for modified FTE are removed from the base budget.

DP 9 – Child and Adult Care Food Program PL Ad - This decision package requests $3.3 million federal funds for the biennium to: 1) adjust for an increase of 2.6 percent in the USDA reimbursement for benefits; 2) fund an increase in the number of meals served with a goal of providing 630,000 additional meals by the end of the biennium, and 3) to fund additional staff needed due to federal requirements that increase the number of required visits to child care centers. Modified FTE were used to perform this function in fiscal 2000. The program anticipates serving a total of 8.9 million meals in fiscal 2002, and 9.1 million meals in fiscal 2003. This request represents a 15 percent per year increase over the base budget of $9.3 million.

DP 59 - TANF and MOE Present Law Adjustment - This decision package requests $5.3 million federal TANF authority to: 1) fund 6.00 FTE to complete fiscal and contract monitoring, work participation validation, and implementation of FAIM Phase II; and 2) annualize funding of TANF cash assistance benefits entirely from federal funds.

LFD ISSUE

Please see TANF discussion included in the program narrative

DP 61 – Intergovernmental Human Services Bureau Present Law Adjustment - This decision package requests: 1) $100,000 general fund in the first year of the biennium for the Montana Food Bank Network; and 2) slightly over $2.0 million federal funds for the biennium to support weatherization, energy assistance and commodity distribution grants.

The $100,000 general fund requested in the first year of the biennium would provide additional funding to the Montana Food Bank Network to: 1) replace a 1984 forklift at the Missoula facility; 2) purchase pallet racking for the Missoula facility; 3) purchase a pickup for smaller deliveries from the Missoula facility; 4) add a refrigerated box to a delivery truck in Miles City; 5) purchase a pallet scale for the Miles City facility; 6) purchase additional cans, lids, and labels for use in the canning facility at the prison; and 7) purchase a pallet scale for use at the prison.

LFD COMMENT

Intergovernmental Human Services Bureau has $98,000 of general fund in the base budget. The $100,000 increase requested in this DP would double the general fund support for the Montana Food Bank Network. Intergovernmental Human Services Bureau also receives funding ($15,000 for the 2001 biennium) for the Montana Food Bank Network through HB 10 Oil Overcharge.

DP 63 - Food Stamp Adjustments - This decision package requests: 1) $146,000 general fund to purchase contracted service; and 2) $1.2 million federal funds to support 1.0 FTE, food stamp employment and training ($900,000), and the food stamp nutrition education program ($80,000). Contracted services are requested to provide policy interpretation and to monitor accuracy and efficiency. The additional federal funds requested would allow two more counties to be served and would increase the total number of cases served by 11,496 recipients.

LFD ISSUE

The department is planning to implement electronic benefit transfer (EBT) of food stamp benefits beginning in the first half of calendar 2002. However, the Executive Budget does not include any reduction in costs due to discontinuation of the contract for food stamp issuance. The annual cost of the food stamp issuance contract included in the base budget is $645,000. The contract is funded 50/50 general fund and federal funds. The legislature may wish to: 1) reduce the funding level for the food stamp issuance contract for fiscal 2002, since the department will be discontinuing issuance of food stamps as EBT is implemented between January and June of 2002; and 2) remove funding of the food stamp issuance contract from the fiscal 2003 budget ($322,500 general fund and $322,500 federal funds). Information regarding the EBT of food stamp benefits is included the Operation and Technology Division program narrative.

DP 69 - County TANF, Food Stamp, and Medicaid - This decision package requests $761,598 general fund and $781,600 federal funds for operating cost increases in assumed and non-assumed counties.

LFD ISSUE

1) This decision package includes increased rent costs totaling $935,000 for the biennium. Please see agency narrative for information on rent increases.
2) Postage increases totaling over $75,000 have been attributed by the department to food stamp mailing costs even though food stamps are scheduled to be distributed electronically beginning in the first half of calendar year 2002. While the costs of first class postage will increase about three percent effective January 2001, the volume of food stamp mailings should decline beginning January 2002 when EBT implementation begins. The decrease in the volume of mailings should offset all or some of the inflationary cost increase that will occur.
3) The Legislative Fiscal Division questions the funding of this decision package because the department has combined cost increases for assumed and non-assumed counties into one decision package and funded all but $10,000 of the cost increases based upon a 50/50 general fund/federal funds ratio. TANF general fund requirements are met through the MOE. No additional general fund is needed for the TANF related portion of these costs. For additional information regarding non-assumed county contributions to cost, please refer to the program narrative.

DP 78 - Public Assistance Administration - This decision package requests $391,000 general fund and $393,000 federal funds for increased administrative costs related program implementation, policy interpretation, and program management.

The department cites the following reasons for the requested increase:

- ?? Expanding Food Stamp Program requirements such as a separate employment and training program for Food Stamp recipients, the loss of waivers, and the mandate to serve recipients who are able-bodied individuals without dependents, will increase Food Stamp program costs.
- ?? Additional duties are associated with FAIM Phase II.
- ?? Program changes that now require the Medicaid program to interface with two new programs, the Children's Health Insurance Program and the Mental Health Services Program.

LFD ISSUE

There are several issues associated with this decision package.

The department has requested funding for this decision package based upon a 50/50 cost-sharing ratio between the general fund and federal funds. However, given that the general fund requirements for the TANF program are met through MOE, which is included in the base budget, no additional general fund should be needed for costs associated with the TANF program.

1) The costs in this decision package for the food stamp program, including the employment and training related workload issues, appear to duplicate costs increases included in DP 63.
2) The department also cites the need for the Medicaid, Children's Health Insurance Program, and Mental Health Service Plan interface as rationale for increased costs in the 2003 biennium. Because these programs were in existence during the 2001 biennium, the costs associated with interfacing them are included in the fiscal 2000 base budget.
3) Because the costs included in this decision package appear to be duplicative and/or do not require general fund, the legislature may not want to fund this decision package.

DP 202 - SABHRS System Adjustment - This decision package includes a biennial reduction of $1.4 million general fund and $1.4 million federal funds. This adjustment is necessary because the expenditures and funding in the base budget were overstated due to a SABHRS system error that allowed an incorrect transaction to post.

New Proposals

	Fiscal 2002					Fiscal 2003				
Prgm	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 58 - Early Childhood Services Caseload Adjustment										
02	3.00	0	0	3,186,690	3,186,690	3.00	0	0	6,195,632	6,195,632
DP 92 - Commodity Supplemental Food Program										
02	1.00	0	0	335,000	335,000	1.00	0	0	335,000	335,000
DP 93 - REACH Grant										
02	0.00	0	0	500,000	500,000	0.00	0	0	250,000	250,000
DP 94 - Refugee Elderly Grant										
02	0.00	0	0	44,500	44,500	0.00	0	0	44,500	44,500
DP 95 - Fort Belknap Indian Comm. TANF Prog										
02	0.00	0	0	(958,012)	(958,012)	0.00	0	0	(958,012)	(958,012)
DP 200 - Human and Community Services Div Leased Vehicles										
02	0.00	0	0	0	0	0.00	0	0	0	0
DP 201 - FAIM Phase II										
02	0.00	0	0	29,324,832	29,324,832	0.00	0	0	0	0
DP 203 - DOE Weatherization Training Grant										
02	0.00	0	0	100,000	100,000	0.00	0	0	100,000	100,000
DP 204 - LIEAP Energy Contingency Award										
02	0.00	0	0	579,565	579,565	0.00	0	0	0	0
DP 205 - Child Care Federal Matching Funds										
02	0.00	0	0	1,483,918	1,483,918	0.00	0	0	2,214,918	2,214,918
DP 206 - Food Stamp Cash Benefits										
02	0.00	0	0	51,652,161	51,652,161	0.00	0	0	51,652,161	51,652,161
Total	**4.00**	**$0**	**$0**	**$86,248,654**	**$86,248,654**	**4.00**	**$0**	**$0**	**$59,834,199**	**$59,834,199**

New Proposals

DP 58 - Early Childhood Services Caseload Adjustment - This decision package requests approximately $9.4 million federal funds for the biennium to support: 1) increased spending of child care discretionary funds, 2) 3.0 FTE for program administration, and 3) the head start collaboration grant. This increase is funded from 1) an expected increase in the Child Care Development Fund (CCDF) discretionary funds; 2) transfers from the TANF Block Grant to the CCDF; and 3) a federal grant for head start collaboration projects.

DP 92 - Commodity Supplemental Food Program - This decision package requests $670,000 federal funds for the biennium to fund the new U.S. Department of Agriculture (USDA) Commodity Supplemental Food Program (CSFP). Included in this request is 1) 1.00 FTE to assist in the ordering, record keeping, federal reporting, and monitoring of the program, 2) warehousing and delivery cost and 3) funds for contracting with area agencies on aging and/or local food banks to determine eligibility and distribute the individual food packages. The department projects this grant will provide 7,500 low-income elderly persons and children with commodity food packages.

DP 93 - REACH Grant - This decision package requests $750,000 federal funding for the biennium to continue the REACH Grant which provides home weatherization, client education, and cost effective retrofits or repairs to space or water heating devices. In addition to benefits, the REACH grant funds will also support travel costs and an evaluation contract with an outside agency as required by the grant. The department estimates that a minimum of 300 low-income households would be served with this new grant.

DP 94 - Refugee Elderly Grant - This decision package requests $89,000 federal funds for the biennium to support the Elderly Refugee Grant, which serves low-income elderly Hmong and Russian refugees.

DP 95 - Fort Belknap Indian Comm. TANF Program - This decision package reduces federal TANF funding by $1.9 million for the biennium. As of October 2000, the Fort Belknap Indian Community administers its own federally approved TANF plan. Montana's TANF grant will be reduced by the amount of the Fort Belknap Indian Community's TANF grant, which is $958,012 annually.

LFD ISSUE A corresponding reduction in the state MOE requirement also occurs when a tribe chooses to implement a Tribal TANF Plan. Please refer to the discussion of the TANF grant included in the program narrative for further information.

DP 201 - FAIM Phase II - This decision package requests a biennial appropriation of $29.3 million federal TANF funding to implement the second stage of welfare reform, FAIM Phase II.

LFD ISSUE Please refer to the discussion of FAIM Phase II included in the program narrative for additional information.

DP 203 - DOE Weatherization Training Grant - This decision package requests $200,000 federal funds for the biennium for the Department of Energy Weatherization Training grant. The department intends to contract with Montana State University Extension Service Housing Program to manage, coordinate, and plan the training and technical development activities. The activities funded by this grant are intended to improve the technical skills of grantees and sub grantees who administer the DOE Weatherization Assistance Program in the Denver region, which includes Montana.

DP 204 - LIEAP Energy Contingency Award - This decision package requests $579,565 federal funds in the first year of the biennium for the increase in the Low Income Energy Assistance (LIEAP) grant awarded to states in response to sharp increases in heating fuel costs. With this funding the department will 1) adjust the energy assistance matrix for LIEAP to provide the additional funds to low-income households and 2) increase funding for weatherization to decrease fuel consumption in low-income households. The department estimates that approximately 15,500 additional low-income households will receive energy assistance and 29 additional households will receive weatherization resulting in a reduced energy costs with the funds from this grant.

DP 206 - Food Stamp Cash Benefits - This decision package requests $103.3 million federal funds in a biennial appropriation for food stamp benefits. Historically, the department has received an appropriation only to administer and contract with an independent provider who distributed food stamp coupons to qualifying low-income families. The state is required by federal mandate to have in place an electronic benefit transfer (EBT) system. When food stamp benefits were issued as a coupon no actual cash was drawn from the federal government and deposited in the state treasury. Therefore, statute did not require these benefits to be appropriated. Instead they were recorded on the state accounting records as a non-budgeted transaction. With the new EBT system, cash will be drawn from the federal government and placed in the state treasury. Statute requires there be an appropriation.

Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	324.75	0.00	18.75	343.50	0.00	26.00	350.75	350.75
Personal Services	12,320,176	(169,737)	789,530	12,939,969	(102,980)	1,061,995	13,279,191	26,219,160
Operating Expenses	3,257,286	476,523	414,700	4,148,509	656,895	395,687	4,309,868	8,458,377
Equipment	10,558	0	110,000	120,558	0	0	10,558	131,116
Grants	4,412,608	84,992	750,000	5,247,600	84,992	1,000,000	5,497,600	10,745,200
Benefits & Claims	20,138,739	2,344,792	1,624,895	24,108,426	3,869,510	2,471,636	26,479,885	50,588,311
Debt Service	89,150	0	0	89,150	0	0	89,150	178,300
Total Costs	**$40,228,517**	**$2,736,570**	**$3,689,125**	**$46,654,212**	**$4,508,417**	**$4,929,318**	**$49,666,252**	**$96,320,464**
General Fund	18,116,310	1,263,115	3,593,930	22,973,355	2,064,303	4,369,808	24,550,421	47,523,776
State/Other Special	2,877,029	82,261	0	2,959,290	104,008	0	2,981,037	5,940,327
Federal Special	19,235,178	1,391,194	95,195	20,721,567	2,340,106	559,510	22,134,794	42,856,361
Total Funds	**$40,228,517**	**$2,736,570**	**$3,689,125**	**$46,654,212**	**$4,508,417**	**$4,929,318**	**$49,666,252**	**$96,320,464**

Program Description

The Child and Family Services Division (CFSD) administers child welfare services, abuse prevention services, domestic violence grants, and other programs designed to keep children safe and families strong. CFSD oversees five regional offices that administer programs and are advised by Local Family Services Advisory Councils, which serve as the link between local communities and DPHHS. CFSD also provides the user liaison for the large statewide computer system application: CAPS (the Child and Adult Protective Services) system. Statutory authority for the program is provided in Titles 33, 40, 41, 42, 50, 52, and 72, MCA, and 45CFR, Parts 1355 and 1370.

Program Narrative

The Child and Family Services Division's (CFSD) 2003 biennium budget request shows an increase of $15.9 million over the 2001 biennium. Present law adjustments add $7.2 million, including $3.3 million from the general fund; new proposals add $8.6 million, including $8.0 million from the general fund.

The 2003 biennium budget request is 19.7 percent higher than the 2001 biennium base in terms of total funds; the general fund request is 31.2 percent greater than that expressed in the 2001 biennium base. General fund support increases from 45.0 percent of the fiscal 2000 base to 49.3 percent of the 2003 biennium budget request.

The most significant changes in the Executive Budget include:

5) $4.5 million for a child protective services proposal that includes funding for additional staff, revises existing processes and procedures, provides additional in-home and intensive visitation services;
6) $3.4 million for subsidized adoption caseload growth;
7) $3.4 million for provider rate increases;
8) $2.7 million for foster care caseload growth; and
9) $2.0 million increased general fund requirements due to reduction in Title XX funds.

Federal Legislation

The Adoption and Safe Families Act of 1997 represents an important landmark in federal child welfare law. The Adoption and Safe Families Act establishes national goals for the child welfare system, including:

1) Safety - The protection of children from abuse or neglect in their own homes or in foster care.
2) Permanency - The provision of stable and consistent living situations, continuity of family relationships and community connections.
3) Well-being - The capacity of families to provide for their children's needs, children having educational opportunities and achievements appropriate to their abilities and children receiving physical and mental health services adequate to meet their needs.

The Adoption and Safe Families Act puts key provisions into place to ensure that child safety is the paramount concern in all child welfare decision-making, shortens the timeframes for making permanency planning decisions, and promotes the adoption of children who cannot safely return to their own homes. The Adoption and Safe Families Act requires the development of outcome measures that can be used to assess the performance of states in achieving national child welfare goals. The Adoption and Safe Families Act also requires the US Department of Health and Human Services to prepare and submit two reports to Congress: a report on child welfare outcomes and a report on performance-based incentive systems for child welfare. The first, "Child Welfare Outcomes 1998: Annual Report," was recently published.

Table 1
Child Welfare Outcomes
1998 Annual Report
Selected Elements for Montana and Nation

Measure	Montana	Nation	Measure	Montana	Nation
Percent of Children Under Age 18:			Time to Reunification		
Alaska Native/American Indian	10%	1%	Less than 12 months	86%	65%
White	87%	66%	12 to 24 months	11%	16%
Black	0%	17%	24 to 36 months	3%	7%
Other	3%	16%	36 to 48 months	0%	4%
Children Subject of an Investigated			48 or more months	0%	6%
Report of Child Maltreatment	94 per 1,000	39 per 1,000	Children who Entered Care in federal fiscal 1998		
Child Maltreatment Victims	16 per 1,000	12 per 1,000	For the First Time	69%	78%
Child Fatalities	.9 per 100,000	1.8 per 100,000	Re-entering within 12 months	23%	10%
Age of Child Victims:			Re-entering more than 12 months a		
Under 1 year	7%	7%	after prior episode	5%	7%
1 - 5 years	33%	31%			
6- 10 years	31%	30%			
11-15 years	25%	23%	Median Length of Stay in Months		
Over 16 years	5%	6%	for Children in Care 9/30/98	17	22.2
Unknown	0%	3%	Children Waiting to be Adopted on 9/30/1998		
Race/Ethnicity of Child Victims			Under 1 year	2%	3%
Alaska Native/American Indian	22%	2%	1 - 5 years	27%	34%
White	59%	58%	6- 10 years	28%	37%
Black	1%	29%	11-15 years	33%	23%
Other/Unknown	17%	19%	Over 16 years	9%	3%
Maltreatment Type			Unknown	1%	1%
Emotional	21%	4%	Children Adopted federal fiscal 1998		
Medical Neglect	3%	3%	Under 1 year	0%	1%
Neglect	47%	56%	1 - 5 years	42%	42%
Physical Abuse	13%	20%	6- 10 years	38%	38%
Sexual Abuse	9%	12%	11-15 years	17%	16%
Other	7%	19%	Over 16 years	2%	2%

Readers are cautioned that the intended use of the data included in the "Child Welfare Outcomes 1998: Annual Report" is to monitor a state's performance over time rather than to compare the performance of various states. Variations in data collection, state definitions of abuse and/or neglect, state standards that prompt removal of children from their homes and the decision to return them home, resources available in the community, the internal capacity of the child welfare agency, and other state-specific factors make comparisons among states difficult. Despite the potential difficulties in the use of the report for comparative purposes, selected information is summarized in Table 1. It is noteworthy that:

1) 39 out of 1,000 children nationwide were the subjects of investigated reports of child maltreatment. In Montana, this statistic is 94 out of 1,000 children, or over twice as high;
2) 12 out of 1,000 children nationwide were the victims of child maltreatment. In Montana this statistic is 16 out of 1,000 children;
3) 1 percent of the population under age 18 is Alaska Native/American Indian. In Montana 10 percent of the population under age 18 is Alaska Native/American Indian;
4) 2 percent of child maltreatment victims overall were Alaskan Native/American Indian. In Montana, 22 percent of the child maltreatment victims are Alaska Native/American Indian;
5) 65 percent of children in the child welfare system were reunited with family in less than 12 months. In Montana 86 percent of children in the child welfare system were reunited with family in less than 12 months; and

6) The median length of stay in foster care for children in care on September 30, 1998 was 22.2 months. In Montana the median length of stay was 17 months.

These statistics point out that:

1) Montana's child welfare system and population are somewhat unique due to the percentage of the state's population that is American Indian; and
2) almost 10 percent of Montana's population of children are subjects of investigations of child maltreatment.

The Native American population in Montana presents the child welfare system with unique challenges including:

1) fulfilling the cultural needs of Native American children;
2) coordination with sovereign nations and their court systems; and
3) the need for expertise in the federal Indian Child Welfare Act of 1978 among workers.

Additionally, it would seem logical that the more children reported as possible victims of child maltreatment, the greater the probability that Montana will have a higher percentage of children removed from their homes.

Montana also has a higher percentage of cases in which child maltreatment was found to exist, which may indicate: 1) Montana's statutory definition of child maltreatment is more easily met than that of other states; 2) children are more visible to the communities they live in than would be true in a more highly populated state; or 3) Montanans are more aware of and willing to report child maltreatment. Information contained in Table 1 indicates that a higher percentage of Montana's cases demonstrated emotional maltreatment, as compared to that reported in nationwide data. This data provides the state with indications of differences in the child welfare system in this state, as compared to those of other states. It also provides an opportunity to explore those differences, and to review and determine how the state's child welfare system might need to be changed.

Data and outcome measures are increasingly important because the Adoption and Safe Families Act now requires outcome measures be used to assess the performance of states in achieving national child welfare goals. States will be given an opportunity to correct deficiencies found within their child welfare systems. States may be assessed financial penalties if compliance with federal regulations is not maintained. Previous federal assessment of state performance was based on procedural compliance. The new system will use state data indicators and qualitative information to determine a state's achievements in: 1) outcomes for children and families in the area of safety, permanency and well-being; and 2) systemic factors that directly impact the state's capacity to deliver services that support improved outcomes. Montana is tentatively scheduled to have its first review during federal fiscal year 2002 (ending September 2002).

The Adoption Incentive Program performance incentives were included in the Adoption and Safe Families Act legislation. States that achieve annual numerical targets toward the goal of doubling the number of adoptions from the child welfare system between federal fiscal 1997 and 2002 may receive adoption incentive funds. Montana received an adoption incentive grant award of $56,960 in fiscal 2000.

In summary, the requirements of the Adoption and Safe Families Act impact child welfare systems nationally as states implement federal requirements:

?? emphasizing the safety of the child as the paramount concern in the provision of services within the child welfare system;
?? shortening the time frame for reunification and/or placement in a permanent home; and
?? beginning to measure and hold states accountable (via incentives or penalties) for achieving positive outcomes for children.

Chafee Foster Care Independence Program
In December 1999, the Foster Care Independence Act of 1999 (also known as the Chafee Foster Care Independence Program) was enacted into law. This legislation provides states with increased opportunities to serve children who are aging out of foster care at age 18, as well as former foster care recipients between the ages of 18 and 20. The allowable

uses of Title IV-E Independent Living funds have been expanded to include: education; career exploration; housing; vocations training; job placement and retention; substance abuse prevention education; and preventive health measures. Medicaid law has been changed, and now permits states to provide Medicaid coverage to youth between the ages of 18 - 20 who have left foster care. This law also increases the resource limit used for the purpose of determining eligibility for federal foster care payments and increases funding for adoption incentive payments. The federal allotment to Montana for Title IV-E Independent Living funds is estimated to be $500,000 annually. The fiscal 2000 base budget includes $215,000 from this funding source.

LFD ISSUE

The Executive Budget does not include a decision package increasing the funding from this federal grant. Section 17-7-402(1)(e) MCA prohibits approval of a budget amendment for any matter that the requesting authority had knowledge of at the time a proposal could have been presented to an appropriations subcommittee, the House Appropriations Committee, or the Senate Finance and Claims Committee. Because the department has knowledge of the increase in this grant, law would prohibit approval of a budget amendment in the 2003 biennium.

Child Protective Services Proposal

The Executive Budget includes a proposal for child protective services system changes funded with $3.4 million from the general fund and $1.1 million in federal funds. The CFSD believes this proposal represents the best effort to redesign the child welfare system to meet the objective of balancing workload and staffing, and that this proposal should be viewed as a single comprehensive approach to meeting this objective. Table 2 summaries the FTE, costs and funding associated with the components included in this proposal. These components include:

Table 2
Child Protective Service Proposal
Summary of Costs and Funding

Component	FTE Fiscal 2002	FTE Fiscal 2003	Personal Services	Operating	Equipment	Grants	Total	General Fund	Federal Funds
In-Home Services	0.00	0.00				$ 1,750,000	$ 1,750,000	$ 1,750,000	$ -
Family Group Conferencing	3.75	5.00	$ 384,445	$ 82,486			466,931	280,159	186,772
Family Resouce Specialist	7.50	11.00	750,415	481,259			1,231,674	739,004	492,670
CAPS Support Staff	3.75	5.00	419,160	82,486			501,646	300,988	200,658
Visitation Services	3.75	5.00	297,505	82,486			379,991	227,995	151,996
Centralized Intake	0.00	0.00	-	81,670	$ 110,000	-	191,670	115,002	76,668
Total	18.75	26.00	$ 1,851,525	$ 810,387	$ 110,000	$ 1,750,000	$ 4,521,912	$ 3,413,147	$ 1,108,765

In-Home Services

The Executive Budget includes $1,750,000 from the general fund for contracted in-home services. The department's goals for in-home services are to prevent children from entering the foster care system, and to speed reunification by providing intensive services. The department estimates this increased investment in in-home services would reduce the foster care caseload by approximately 187 children in fiscal 2002, and by 250 children in fiscal 2003, resulting in a stable foster care caseload.

Family Group Conferencing

The Executive Budget includes 5.0 FTE, Grade 15 positions, as well as the related operating costs to implement the Family Group Conferencing Program statewide. The department requests funding for these positions beginning October 1, 2001. Family group conferencing is a process used to identify and utilize family strengths to maintain children in the care of family members. The department estimates that in the past three years, approximately 80 percent of children served by family group conferencing remained at home or were placed with relatives.

Family Resource Specialist

The Executive Budget includes 11.0 FTE Grade 14 and 15 positions, in addition to the related costs to hire family resource workers. The department requests funding for eight positions beginning October 1, 2001, and three additional positions beginning January 1, 2002. The division states that the lack of resource workers to perform licensing and related duties creates problems with recruitment and training of foster and adoptive families; completion of home studies for foster and adoptive families; and the provision of ongoing training and support to foster and adoptive families.

CAPS System Support
The Executive Budget includes 5.0 FTE, grade 16 positions, and the related costs for Child and Adult Protective Services System (CAPS) system support. The department requests funding for these positions beginning October 1, 2001. This component of the proposal would provide each of the five CFSD regions with a field-based expert in the use of CAPS. CAPS experts would:

1) provide ongoing training and support to users in field offices,
2) work as a team to identify the most efficient uses of the system;
3) train users statewide; and
4) identify and coordinate needed system improvements and changes.

Visitation Services
The Executive Budget includes 5.0 FTE, grade 14 positions and the related costs to provide visitation services for children and families in Butte, Bozeman, Billings, and Eastern Montana. The department requests funding for these positions beginning October 1, 2001. In addition to providing direct visitation services, these positions will be used to establish networks of volunteers who would be trained to help provide supervised visitations for families. The department estimates that 40 percent of the families receiving intensive visitation services will be successfully reunified. The division has also entered into a cooperative agreement with the Casey Family Program to provide intensive visitation services in Missoula, Great Falls, Helena, and Kalispell. Under this agreement, the Casey Family Program funds and supervises an intensive visitation specialist, who provides services exclusively to families on the division's caseload.

Centralized Intake
The Executive Budget includes funding to equip and establish a centralized phone center to complete the intake of child abuse and neglect referrals. Under this proposal, trained workers would perform the intake function; the details of calls that meet screening criteria would be sent to local investigators who would make on-site assessments of cases and categorize them according to the services or interventions needed. Caseworker efforts would be directed at providing appropriate services early. The department believes a centralized referral system would provide a number of benefits including reduction of inefficiencies; reduction of costs for workers on call; reduction of overtime costs; improvement in consistency of the screening and intake process; standardization of referral data entered into the automated system (CAPS); improvement in resource management; and increasing the amount of time social workers are available to provide direct services.

LFD ISSUE

The legislature may wish to ask the following questions:

1) What programmatic and financial impact will the components of this request have on the foster care and subsidized adoption caseloads?
2) How does this request interact with the requirements of the Adoption and Safe Families Act?
3) How would the division prioritize the components of this request in the event that the request is not fully funded?
4) What changes will be visible in local communities if this proposal were implemented?

LFD ISSUE

Similar personal service, operating and equipment costs included in the base budget are funded at 49.2 percent with general fund, while costs included in this proposal are funded at 60 percent with general fund. If items other than in-home services were funded at a rate of 49.2 percent general fund rather than 60 percent general fund, approximately $300,000 less would be required from the general fund.

LFD ISSUE One of the goals of the federal Temporary Assistance for Needy Families (TANF) grant is to encourage the formation and maintenance of two-parent families. Services to fulfill this goal can be provided without the application of income and resource eligibility criteria. However, objective criteria must be used to determine eligibility for services. It is possible that all - or a portion of - the in-home, family group conferencing, and visitation services proposed by the CFSD could be funded with federal TANF funds rather than the general fund. The legislature may wish consider the option of using TANF funds for this proposal. This decision would require coordination of this request with TANF- funded expenditure requests of the Human and Community Services Division.

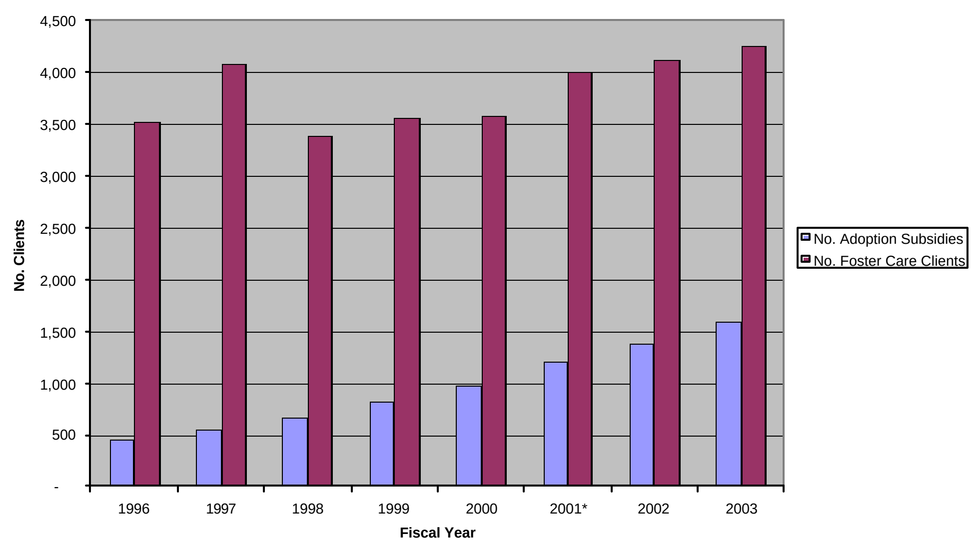
Subsidized Adoption Caseload Estimate

Table 3
Foster Care and Subsidized Adoption
Summary of Clients, Costs and Costs Per Client
Per Executive Budget

	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001*	Fiscal 2002	Fiscal 2003
Subsidized Adoption Caseload								
No. Adoption Subsidies	449	554	673	820	970	1,198	1,378	1,584
Annual Percent Increase (Decrease)		23.4%	21.5%	21.8%	18.3%	23.5%	15.0%	14.9%
Subsidized Adoption Costs*	$ 1,401,882	$ 1,666,449	$ 2,164,369	$ 2,743,660	$ 3,307,633	$ 3,752,677	$ 4,407,633	$ 5,617,633
Annual Percent Increase (Decrease)		18.9%	29.9%	26.8%	20.6%	13.5%	17.5%	27.5%
Average Costs Per Client	$ 3,122	$ 3,008	$ 3,216	$ 3,346	$ 3,410	$ 3,132	$ 3,199	$ 3,546
Annual Percent Increase (Decrease)		-3.7%	6.9%	4.0%	1.9%	-8.1%	2.1%	10.9%
Foster Care								
No. Foster Care Clients	3,528	4,079	3,381	3,561	3,579	4,003	4,124	4,249
Annual Percent Increase (Decrease)		15.6%	-17.1%	5.3%	0.5%	11.8%	3.0%	3.0%
Foster Care Costs*	$11,832,804	$ 12,817,431	$ 13,370,882	$ 14,252,025	$ 15,310,178	$ 19,340,278	$ 16,507,928	$ 16,822,771
Annual Percent Increase (Decrease)		8.3%	4.3%	6.6%	7.4%	26.3%	-14.6%	1.9%
Average Costs Per Client	$ 3,354	$ 3,142	$ 3,955	$ 4,002	$ 4,278	$ 4,831	$ 4,003	$ 3,959
Annual Percent Increase (Decrease)		-6.3%	25.9%	1.2%	6.9%	12.9%	-17.1%	-1.1%

*Notes:
Subsidized adoption costs included in this table are equal to the base budget plus present law adjustments. New Proposals are not included.
Foster care costs included in this table are equal to the base budget plus present law adjustments. New Proposals are not included.
Fiscal 2001 costs are estimated to be equal to the approved budget for fiscal 2001 including direct care worker restricted appropriations.

Chart 1
Number of Clients
Foster Care and Subsidized Adoption



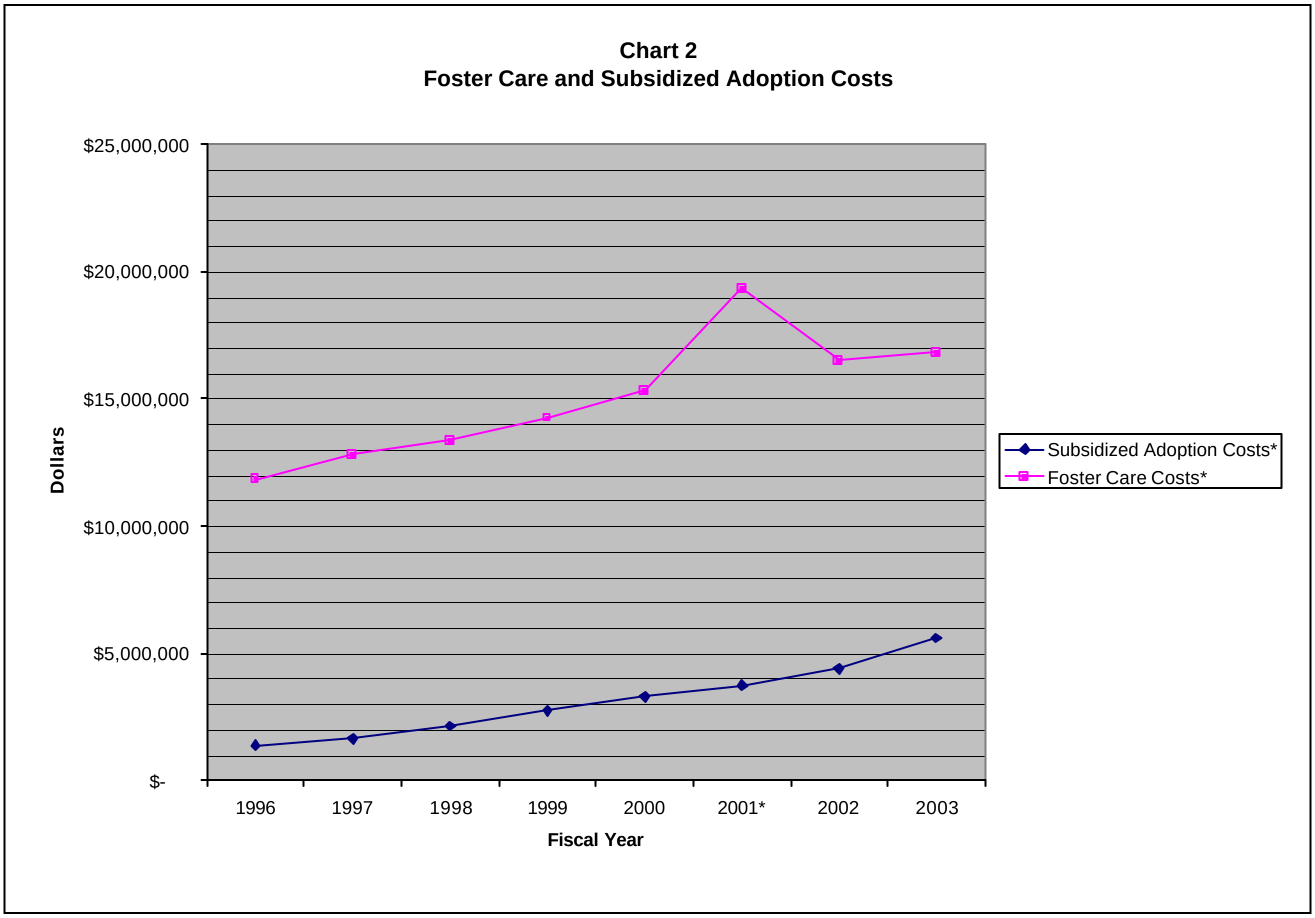


Table 3 and Charts 1 and 2 illustrate the historical and requested caseload increases for fiscal 1996 through fiscal 2003.

LFD ISSUE

There are two issues with this request:

1) The Executive Budget includes subsidized adoption caseload information that indicates a 15 percent per year increase is expected for the 2003 biennium. This appears to be a conservative estimate. Since 1996, the lowest annual percentage increase in subsidized adoption caseload has been 18.3 percent. Additionally, in order to support the caseload estimates with the funds requested in the Executive Budget, the average costs per case would have to decline by approximately six percent between fiscal 2000 and fiscal 2002. The average cost per case then rebounds between fiscal 2002 and fiscal 2003, increasing by almost 11 percent.

Adoption subsidies may be up to $10 per month less than the family foster care rate. Because family foster care rates increased during fiscal 2000 and fiscal 2001, it is unlikely that the cost per case in subsidized adoption will decline. Between fiscal 2000 and fiscal 2001, family foster care rates increase about 65 cents per day. The department estimates 228 adoption subsidies will be negotiated and finalized during fiscal 2001. Based upon a rate increase of 65 cents per day, the annual cost increase for these subsidies would be $54,000 per year. Spread across the total subsidized adoption caseload, the $54,000 costs increase equates to an increase of $45 per case.

LFD ISSUE (Continued)

Using fiscal 2000 actual caseload and costs per case as the base and assuming that:

- ?? Adoption subsidies increase 18 percent per year for fiscal 2001 - 2003; and
- ?? Average cost per adoption subsidy case increase $45 per year for fiscal 2001 – 2003,

the department would need an additional $150,000 from the general fund in the first year of the biennium in order to support this level of caseload growth. (The LFD requested – but did not receive – a caseload estimate that included funding that matched the Executive Budget.)

2) Given the historical trends and the state and federal policy initiatives placing increased emphasis on achieving permanency for foster care children in the shortest time possible, it is unlikely that the annual rate of increase in subsidized adoption caseload will decrease at this time. Of the 203 adoptions finalized during fiscal 2000, 73 percent were eligible for financial assistance under Title IV-E of the Social Security Act, an entitlement program. Once children have entered the foster care system and are determined eligible for a Title IV-E funded adoption subsidy, it is not possible to deny an adoption subsidy. The division can, however, negotiate the amount of the subsidy, and the subsidy may be financial or the provision of Medicaid as a medical subsidy. Of the 203 adoptions finalized in fiscal 2000, 150 received a financial subsidy.

The provision of an adoption subsidy is generally a long-term obligation of the state. The costs associated with the subsidy can be expected to compound quickly. The average age of children placed for adoption in fiscal 2000 was 6.5 years. Adoption subsidies normally continue until the child reaches the age of 18. In the case of a disabled child, the adoption subsidy may continue until the child reaches the age of 21. An adoption subsidy may be discontinued if the adoptive parents no longer have custody of the child. If the average age of the children placed adoptively was 6.5 years and the adoption subsidy is continued until the child reaches age 18, the state will have incurred costs for that one adoption subsidy for 11.5 years.

Since it appears that the requested subsidized adoption caseload increase is less than historical experience would indicate will occur, the legislature may wish to ask CFSD what actions have been or will be taken to reduce the increase in the number and costs of adoption subsidies below historical rates of experience.

Foster Care Caseload Estimate

Table 3 and Graph 1 and 2 illustrate the historical and requested foster care caseload increases for fiscal 1996 through fiscal 2003.

LFD ISSUE

The Executive Budget narrative includes an estimated number of foster care clients that increases 11 percent between fiscal 2000 and 2001, and 3 percent per year in fiscal 2002 and 2003. While the actual annual change in the number of foster care clients is inconsistent, an annual caseload increase between 1 and 3 percent would be consistent with the average annual growth in the number of clients. Based upon the estimated number of clients and the funding included in the Executive Budget, the average cost per case must decline more than 6 percent between fiscal 2000 and fiscal 2002, and an additional 1 percent between fiscal 2002 and fiscal 2003. A decline in the average cost per case is unlikely due to the fact that the 1999 legislature appropriated funding for a rate increase for foster care providers in the fiscal 2001 budget. The estimated number of clients to be served does not appear to be consistent with the funding requested in the Executive Budget. The LFD requested - but did not receive - a caseload estimate including funding that matched the Executive Budget request. Additionally, the projected foster care caseload costs may be understated because a decision package requesting annualization of the fiscal 2001 rate into the 2003 biennium budget is not included in the Executive Budget.

Using fiscal 2000 as the base and assuming that:

- ?? The number of cases will increase 3 percent in fiscal 2001 and then remain constant (i.e., number of cases does not increase in 2003 biennium); and
- ?? The cost per case increases 7.4 percent (due to provider rate increase annualization) in fiscal 2001 and then remains constant (i.e., cost per case does not increase in the 2003 biennium),
- ?? The department would need $565,000 more from the general fund than is included in the Executive Budget.

LFD ISSUE Fiscal 2000 foster care costs included in the base budget vary significantly from the total costs according to the report compiled by the Child and Adult Protective Services System (CAPS). CAPS reports for fiscal 2000 include $16,253,577 in costs, while the fiscal 2000 base budget for foster care is $15,310,178 - a difference of over $900,000. The LFD has requested an explanation of the difference between the fiscal 2000 base budget for foster care services and costs included in the CAPS report. Additionally, the LFD requested the CAPS report that summarizes paid foster care services by type of service. The department indicated that due to system difficulties, they have been unable to produce this report.

Program Reorganization

During fiscal 2000, DPHHS implemented several program transfers and reorganizations that impacted the Child and Family Services Division. These included transfer of:

?? The federal Access and Visitation Grant from CFSD to the Child Support Enforcement Division;
?? Foster care facility (residential care) licensing from CFSD to the Quality Assurance Division; and,
?? Adult protective services from CFSD to the Senior and Long Term Care division.

The purpose of the Access and Visitation Grant is to facilitate access to and visitation with children by non-custodial parents. The federal Access and Visitation Grant ($100,000) and required matching funds ($10,000) were transferred from CFSD to the Child Support Enforcement Division.

Responsibility for licensing foster care facilities (residential care providers) was moved from CFSD to the Quality Assurance Division. This transfer included 7.0 FTE and $217,000 from the general fund. The CFSD retains responsibility for licensing family foster care homes and child-placing agencies, and for approving adoptive homes. The department is also requesting legislation that would provide authority to license transitional living programs.

Responsibility for the Adult Protective Services Program was transferred from CFSD to the Senior and Long Term Care Division. This transfer included 29.5 FTE and $1.3 million from the general fund. In some geographic areas of the state, CFSD child protective services workers continue to provide emergency response for adult protective service cases, and to provide back-up for adult protective service workers. Case aides continue to provide transportation assistance to adult protective service clients.

Table 4
Child and Family Services Funding Summary

Fund Source	Fiscal 2000 Base Budget	Budget Request Fiscal 2002	Budget Request Fiscal 2003	Percent of Total
General Fund	$ 18,116,310	$ 22,973,355	$ 24,550,421	49.4%
Percent of Total	45.0%	49.2%	49.4%	
State Special Revenue				
County Reimbursements	$ 2,111,067	$ 2,111,067	$ 2,111,067	4.3%
Child Abuse and Neglect Program.	30,766	30,766	30,766	0.1%
Third Party Contributions - F.C.	583,914	666,834	688,581	1.4%
Kellogg Grant	749	0	0	0.0%
Assault, Intervention and Treatment	148,123	148,123	148,123	0.3%
Family Preservation Conference	2,410	2,500	2,500	0.0%
Subtotal State Special Revenue	$ 2,877,029	$ 2,959,290	$ 2,981,037	6.0%
Percent of Total	7.2%	6.3%	6.0%	
Federal Funds				
TANF Benefits	$ 1,311,524	$ 1,368,635	$ 1,412,076	2.8%
Family Preservation	608,395	608,395	608,395	1.2%
Child Justice	36,769	36,769	36,769	0.1%
Child Welfare Services IVB	271,396	271,396	271,396	0.5%
Crisis Nursery	58,759	30,763	30,763	0.1%
CAPS Development	22,926	22,924	22,924	0.0%
Foster Care and Adoption IVE	7,826,788	8,899,422	10,002,587	20.1%
Child Abuse	79,042	79,042	79,042	0.2%
Domestic Violence	432,198	432,198	432,198	0.9%
Child Abuse Challenge	170,833	170,833	170,833	0.3%
Independent Living IVE	215,229	234,795	234,864	0.5%
Title XX - Social Services Block Gt	2,068,307	1,303,503	1,359,931	2.7%
Cost Allocation	6,133,012	7,246,078	7,456,202	15.0%
Adoption Incentive Funds	0	16,814	16,814	0.0%
Subtotal Federal Funds	19,235,178	20,721,567	22,134,794	44.6%
Percent of Total	47.81%	44.42%	44.57%	
Total Funds	$ 40,228,517	$ 46,654,212	$ 49,666,252	100.0%
Annual Rate of Change				

Funding

Table 4 summarizes the funding for the CFSD. The division is funded by a combination of: general fund, state special revenue from county contributions and third party contributions to the costs of care, and federal funds. Federal funding sources include:

?? Title IV-E Foster Care and Subsidized Adoption funds;
?? TANF funds;
?? Social Service Block Grant (Title XX) funds;
?? Title IV-B Child Welfare funds; and,
?? Title IV-B part II, Family Preservation Grant funds.

LFD ISSUE In fiscal 2000, $2.1 million in TANF funds transferred to Title XX were used to support foster care services in the Child and Family Services Division. The Executive Budget for the 2003 biennium budget includes a reduction of Title XX support for foster care services of almost $2.0 million. TANF funds transferred to Title XX and used in support of foster care services for the 2003 biennium are approximately $2.7 million, less than the maximum allowable transfer from TANF to Title XX. For complete discussions of transferring TANF funds to Title XX, possible uses of these funds, and recommendations for legislative consideration, please refer to the TANF discussion included in the program narrative dealing with the Human and Community Services Division.

LFD ISSUE State special revenue from third party contributions to foster care costs decreased from approximately $1.4 million in fiscal 1999 to less than $600,000 in fiscal 2000. Third-party contributions reimburse both state and federal sources for foster care costs. The base budget for foster care services is funded at 39.3 percent with general fund, meaning that approximately 39 percent of the decrease in state special revenue would have offset general fund costs. The department has been unable to provide a specific explanation for the change, nor to provide schedules itemizing these collections by revenue source for each of the two years under discussion. Department staff believes that the decline in third party contributions may be due to procedural changes resulting in an increase in third party collections for youth in the juvenile justice system in combination with a decrease in collections for foster care clients. However, the department has not provided information that supports this conclusion.

County Funding
The 1999 legislature included language in HB 2 directing the department to present a plan to the 57th legislature that would create a uniform statewide system of funding Temporary Assistance for Needy Families (TANF), including maintenance of effort, eligibility determination for cash assistance, food stamps, Medicaid programs, and foster care program costs. HB 2 also stated that the plan must provide a predictable and adequate source of funding and eliminate the historic distinction in funding human services costs between assumed and nonassumed counties.

In accordance with 53-2 part 8 MCA, those counties that chose to be state-assumed levy 9 mills, then forward the proceeds to the state. At that point, the state becomes responsible for payment of all public assistance and protective service costs. There has been no change in the manner in which assumed counties contribute to human services programs.

Nonassumed counties contribute to the costs of protective service employees at a level equal to the county's expenditures for salaries, travel expenses, and indirect costs associated with protective services employees for fiscal year 1987, and adjusted for annual inflation as outlined in Section 52-1-110 MCA.

Nonassumed counties also contribute to the foster care cost by reimbursing the state for half of the nonfederal share of foster care costs, as limited in one of the following ways.

1) Limited to the county's level of expenditure in fiscal 1987, or
2) If the county share of expenditures in fiscal 1987 was $10,000 or less, the county contributes at the lesser of the county's share of costs in fiscal 1987 or average expenditures for fiscal years 1984 through 1987.

Changes to county contributions for protective service workers and foster care costs are included in legislation proposed for public assistance programs county costs. For further information, please refer to the Human and Community Services Division Program narrative. The Executive Budget does not include a decision package requesting a change in funding in the event that legislation is enacted that changes the way counties contribute to protective service worker and foster care costs.

Legislation

The 1999 legislature included language in HB 2 directing the department to work with the Supreme Court to develop joint rules, regulations, and procedures for the foster care review process. Department staff indicated that they have worked with the Supreme Court Administrator's Office to prepare a bill that would provide a single foster care review process. The draft bill (LC0055) provides for a process based largely upon the current citizen review board process and includes the following components:

- Citizen review boards would no longer be considered a pilot project;
- New requirements for training of review board members would be implemented;
- A listing of parties invited to the reviews would be included in statute; and
- Deliberations of the review board would be open, and all would be present at the review. Exceptions would include allowing the presiding board member to close all or part of a deliberation if threat of reprisal had been made by someone who would be in attendance, or if confidentially laws preclude open deliberations.

Present Law Adjustments	-----Fiscal 2002-----					-----Fiscal 2003-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					65,184					134,007
Vacancy Savings					(334,921)					(336,987)
Inflation/Deflation					7,164					14,093
Fixed Costs					151,008					167,481
Total Statewide Present Law Adjustments					**($111,565)**					**($21,406)**
DP 39 - Subsidized Adoption Caseload Increase	0.00	567,599	0	532,401	1,100,000	0.00	1,191,960	0	1,118,040	2,310,000
DP 40 - Foster Care Caseload Increase	0.00	315,120	82,920	801,960	1,200,000	0.00	397,765	104,667	1,012,286	1,514,718
DP 60 - Leased Vehicles from DOT	0.00	21,210	0	14,141	35,351	0.00	41,688	0	27,793	69,481
DP 62 - Field Staff Operations	0.00	180,000	0	120,000	300,000	0.00	180,000	0	120,000	300,000
DP 64 - Computer Hardware	0.00	49,800	0	33,200	83,000	0.00	123,504	0	82,336	205,840
DP 301 - Big Brothers Big Sisters Base Year Corrections	0.00	44,792	0	0	44,792	0.00	44,792	0	0	44,792
DP 303 - Fund Case Mgmt for Fort Peck Indian Reservation	0.00	84,992	0	0	84,992	0.00	84,992	0	0	84,992
Total Other Present Law Adjustments	**0.00**	**$1,263,513**	**$82,920**	**$1,501,702**	**$2,848,135**	**0.00**	**$2,064,701**	**$104,667**	**$2,360,455**	**$4,529,823**
Grand Total All Present Law Adjustments					**$2,736,570**					**$4,508,417**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

<u>DP 39 - Subsidized Adoption Caseload Increase -</u> This decision package requests $1.8 million from the general fund and $1.7 million in federal funds for anticipated increases in the subsidized adoption caseload.

LFD ISSUE

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

DP 40 - Foster Care Caseload Increase - This decision package requests $713,000 from the general fund, $187,000 in state special revenue (third party contributions to the costs of care) and $1,800,000 in federal funds for anticipated increases in the foster care caseload.

LFD ISSUE

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

DP 60 - Leased Vehicles from DOT - This decision package requests approximately $63,000 from the general fund and $42,000 in federal funds for nine leased vehicles in fiscal 2002 and for seven additional leased vehicles in fiscal 2003. These vehicles would replace existing fleet vehicles.

DP 62 - Field Staff Operations - This decision package requests $360,000 from the general fund and $240,000 in federal funds to compensate social workers for overtime and to meet increased rental costs.

LFD ISSUE

The funding requested for overtime in this decision package represents almost twice the overtime cost of $53,664 paid in fiscal 2000.

This decision package also requests funding for increased rental costs. Because several divisions within the department maintain field offices, the legislature may wish to consider applying an agency-wide inflation rate for rent. (Please see the agency narrative for a discussion of rent increases.)

DP 64 - Computer Hardware - This decision package requests $173,000 from the general fund and $116,000 in federal funds for the biennium to lease new computer equipment and to replace all existing desktop computers. The division plans to replace 50 percent of the desktop computers in fiscal 2002 and the balance in fiscal 2003 by entering into a four-year lease, the anticipated life of the machines. The department has included replacement of four file servers and four printers each year in this request.

LFD ISSUE

The division has equipment, computer equipment, and debt service costs totaling $108,685 in the fiscal 2000 base. The funds requested in this decision package would increase this base by $289,000, or by 2.5 times. Based upon recommended personal computer costs of $2000, the funding requested in this decision package would replace approximately 144 personal computers - or personal computers for approximately 44 percent of the division's 324 full time equivalent employees.

The legislature has two options to consider with regard to replacing this equipment.

1) Designate this funding as one-time-only so that it is not included in the fiscal 2002 base. Because the division intends to replace all existing desktop computers in the 2003 biennium, and because the anticipated life of the machines is four years, the division will not need funding to replace desktop computers in the 2005 biennium if this request is funded.
2) Fund one-quarter of the equipment replacement costs each year and allow the funds to become part of the base budget. If the legislature funds one-quarter of the equipment replacement per year, the division would be funded to replace desktop computers on a four year schedule.

DP 301 - Big Brothers Big Sisters Base Year Corrections - The department states that this adjustment is needed to maintain the Big Brother/Big Sister program at the fiscal 2000 appropriation level as a result of an accounting error resulting in $44,792 of costs being left unrecorded at fiscal year end, causing an understatement of the base budget.

DP 303 - Fund Case Mgmt for Fort Peck Indian Reservation - This decision package requests approximately $170,000 from the general fund for the biennium to expand a contract for services for Title IV-E eligible children on the Fort Peck Reservation.

LFD COMMENT The division currently contracts with the Fort Peck Indian Reservation and passes through federal Title IV-E reimbursement for permanency planning and licensing services. The general fund request in this decision package would be used to draw additional federal funds and would allow the department to expand the contract with the Fort Peck Indian Reservation. This would allow Tribal Social Services to provide foster care case management services to Title IV-E eligible children on the reservation. The division currently contracts with six of the seven reservations for the provision of foster care case management services to Title IV-E eligible children.

New Proposals

Program	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
DP 118 - Foster Care Rate Increase										
03	0.00	221,045	0	119,024	340,069	0.00	227,720	0	122,619	350,339
DP 122 - Subsidized Adoption Rate Increase										
03	0.00	387,088	0	363,082	750,170	0.00	812,885	0	762,472	1,575,357
DP 123 - Foster Care Facilities Rate Increase										
03	0.00	120,026	0	64,630	184,656	0.00	127,361	0	68,579	195,940
DP 135 - Title XX Reduction										
03	0.00	977,234	0	(977,234)	0	0.00	977,234	0	(977,234)	0
DP 139 - Child Protective Services										
03	18.75	1,538,537	0	525,693	2,064,230	26.00	1,874,608	0	583,074	2,457,682
DP 302 - CAPS Childcare										
03	0.00	350,000	0	0	350,000	0.00	350,000	0	0	350,000
Total	**18.75**	**$3,593,930**	**$0**	**$95,195**	**$3,689,125**	**26.00**	**$4,369,808**	**$0**	**$559,510**	**$4,929,318**

New Proposals

DP 118 - Foster Care Rate Increase - This decision package requests approximately $449,000 from the general fund and $242,000 in federal funds, in order to provide a rate increase of 50 cents per day for family foster care.

LFD ISSUE The funding included in this decision package is sufficient to provide family foster care providers a 50-cent-per-day rate increase in the first year of the 2003 biennium and to maintain funding of that increase during the second year of the 2003 biennium. The funding requested is not adequate to provide a 50-cent-per-day rate increase in both years of the 2003 biennium. The LFD requested information detailing the calculation of the rate increases included in the Executive Budget. Calculations matching the funding included in the Executive Budget were not received. The base budget for foster care services is funded approximately 50 percent with general fund and state special revenue and 50 percent with federal funds. However, 65 percent of the costs included in this decision package are funded with general fund. (Please refer to the agency narrative for a complete discussion of provider rate increases.)

DP 122 - Subsidized Adoption Rate Increase - This decision package requests approximately $1.2 million general fund and $1.1 million federal funds for the biennium to provide a 50-cent-per-day rate increase for families receiving adoption subsidies on behalf of adoptees. The department seeks maintenance of adoption subsidies at $10 per month less than the costs of family foster care.

LFD ISSUE

When the funding requested in this decision package is divided by the projected number of subsidized adoptions for the year and by 365 days per year, the estimated increase per day of care is $1.49 in fiscal 2002 and $2.72 in fiscal 2003. This is considerably greater than the 50 cents per day described in the decision package narrative. The LFD requested information detailing the calculation of the rate increases included in the Executive Budget. Calculations matching the funding included in the Executive Budget were not received.

The adoption subsidy payment is negotiated at such time as an adoption is finalized. Subsidies for finalized adoptions may be up to $10 per month less than the costs of family foster care. Thus, as family foster care rates rise, the adoption subsidies negotiated during that year also rise. Subsidies negotiated for adoptions finalized in preceding years do not automatically receive a rate increase. (Subsidies for adoptions finalized in preceding years may be renegotiated if the family requests a review of the financial subsidy.)

<u>DP 123 - Foster Care Facilities Rate Increase -</u> This decision package requests approximately $247,000 general fund and $133,000 federal funds to provide a 3 percent per year rate increase for foster care facilities.

LFD ISSUE

Assuming total foster care costs for fiscal 2000 were $15,300,000 and that $6,150,000 of the total costs were reimbursed to foster care facilities, there is adequate funding in this decision package to fund a three percent provider-rate increase in the first year of the biennium and to maintain funding of that increase in the second year of the 2003 biennium. However, sufficient funding is not included in this decision package to provide a three percent per year increase as described in the narrative. The LFD requested information detailing the calculation of the rate increases included in the Executive Budget. Calculations matching the funding included in the Executive Budget were not received.

The base budget for foster care services is funded at approximately 50 percent with general fund and state special revenue and 50 percent with federal funds. However, 65 percent of the costs included in this decision package are funded with general fund. (Please refer to the agency narrative for a complete discussion of provider rate increases.)

<u>DP 135 - Title XX Reduction -</u> This proposal requests almost $2.0 million from the general fund to replace TANF funds transferred to Title XX for use in providing foster care services. Beginning in fiscal 2001, federal regulation reduced the maximum amount of TANF funds that may be transferred to Title XX from 10 percent to 4.25 percent.

LFD ISSUE

For a complete discussion of TANF transfers, please refer to the section of the program narrative dealing with transfer of TANF funds to Title XX, and to the TANF section included in the program narrative for the Human and Community Services Division.

<u>DP 139 - Child Protective Services -</u> This decision package requests $3.4 million from the general fund and $1.1 million in federal funds to implement a redesign of the child welfare system in Montana so that workload and staff size are balanced.

LFD ISSUE

Please refer to the program narrative for a discussion of this proposal.

DP 302 – Child Protective Services Childcare - This decision package requests $700,000 from the general fund for the biennium to increase the availability of child protective service childcare. Child protective services childcare provides financial support to birth and foster-care families in need of childcare that are ineligible to receive funding from other childcare funding sources. The department stated that during fiscal 2000, the funding for child protective services childcare ran out in the first six months of the year

LFD ISSUE

This request doubles the funding available for child protective services childcare. Division staff estimates that 95 percent of child protective services childcare funds are used to fund childcare services for foster parents. The number of families served and the amount of funds expended from Child Care Development Funds (CCDF) in support of childcare services for foster care families is currently unavailable. Foster care families who receive childcare funded with CCDF must meet CCDF income and program eligibility requirements.

The legislature may wish to:

1) Consider funding child protective services childcare in conjunction with family foster care rates;
2) Include funding for child protective services childcare in the foster care budget, rather than funding it as a separate item; and
3) Direct the department to collect and make available information regarding the number of foster care families and children served by CCDF funds, as well as the amount of CCDF funds expended on behalf of foster care children.

Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	31.50	0.00	2.50	34.00	0.00	2.50	34.00	34.00
Personal Services	1,269,796	111,159	98,175	1,479,130	119,065	98,511	1,487,372	2,966,502
Operating Expenses	935,812	215,279	74,913	1,226,004	278,613	75,816	1,290,241	2,516,245
Debt Service	11,897	0	1,650	13,547	0	1,650	13,547	27,094
Total Costs	**$2,217,505**	**$326,438**	**$174,738**	**$2,718,681**	**$397,678**	**$175,977**	**$2,791,160**	**$5,509,841**
General Fund	550,778	45,837	30,054	626,669	49,774	29,975	630,527	1,257,196
State/Other Special	966,273	220,957	117,006	1,304,236	283,244	118,395	1,367,912	2,672,148
Federal Special	700,454	59,644	27,678	787,776	64,660	27,607	792,721	1,580,497
Total Funds	**$2,217,505**	**$326,438**	**$174,738**	**$2,718,681**	**$397,678**	**$175,977**	**$2,791,160**	**$5,509,841**

Program Description
The Director's Office provides overall policy development for the department. The Director's Office also coordinates the Montana Telecommunications Access Program, which purchases telephone communications devices and relay services for hearing- or speech-impaired persons. Included in the Director's Office functions are legal affairs, personnel services, public information, and state and local relations. The Board of Health and Human Services Appeals, the Public Health and Human Services Statewide Advisory Council, and the Montana Health Care Advisory Council are administratively attached.

Program Narrative
The Director's Office budget requests increases about $760,000. General fund as a percent of the request declines from 24.8 percent to 23.1 percent. State special revenue supports the bulk of the increase.

The most significant changes in the budget request are:
- ?? 1.0 FTE and $570,000 state special revenue to fund increases in the Montana Telecommunications Access Program (MTAP) program;
- ?? 1.5 FTE and about $268,000 total funds over the biennium to staff the prevention coordination and resource function; and
- ?? Statewide present law adjustments of about $259,000.

Table 4-1
Director's Office Funding

Fund Source	Fiscal 2000 Actual	Executive Request 2002	Executive Request 2003	Percent of Total
General Fund	$ 550,778	$ 626,669	$ 630,527	22.6%
Percent of Total Funds	24.8%	23.1%	22.6%	
State Special Revenue				
ICC Donations	37,010	107,010	107,010	3.8%
Telecommunications Access	695,226	937,239	999,258	35.8%
Indirect	234,037	259,987	261,644	9.4%
Subtotal SSR	966,273	1,304,236	1,367,912	0
Percent of Total Funds	43.6%	48.0%	49.0%	
Federal Funds				
Indirect	700,454	787,776	792,721	28.4%
	25.8%	29.0%	29.2%	
Total Funds	$2,217,505	$ 2,718,681	$ 2,791,160	100.0%
Annual Rate of Change		10.73%	2.67%	

Funding
Funding consists of 23 percent general fund, 49 percent state special revenue, and 29 percent federal funds.

State special revenue funds are derived through Interagency Coordinating Council funding transfers, the DPHHS cost allocation plan, and the Montana Telephone Assistance Program (MTAP) tax -- a monthly ten-cent assessment on every telephone line in the state. This assessment is collected by telecommunications services providers.

Federal funds are a portion of federal grants received by the department, and are used to pay administrative costs associated with the Director's Office. General fund pays remaining division costs.

Table 4-2
Montana Telecommunications Revenue/Fund Balance

Fund Balance/Fee Income/ Expenditures	FY1994	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001*	FY2002*	FY2003*
Beginning Fund Balance	$ 571,847	$ 540,271	$ 601,777	$ 555,530	$ 722,780	$ 654,739	$ 723,352	$ 832,301	$ 854,894	$ 855,223
Fee Collections	495,108	663,418	598,991	698,081	713,008	770,391	850,402	892,922	937,568	984,447
Total Funds Available	1,066,955	1,203,689	1,200,768	1,253,611	1,435,788	1,425,130	1,573,754	1,725,223	1,792,462	1,839,670
Operating Expenses	526,684	601,912	645,238	529,855	689,195	701,777	695,226	870,329	937,239	999,258
Adjustments	-	-	-	976	91,854	1	46,227	-	-	-
Year End Balance*	$ 540,271	$ 601,777	$ 555,530	$ 722,780	$ 654,739	$ 723,352	$ 832,301	$ 854,894	$ 855,223	$ 840,412
Year End Balance Assuming Historic Revenue Growth Rate**								$ 888,910	$ 955,684	$ 1,051,370

*Estimated revenue increase based on half of annual rate of change from fiscal 1994 through fiscal 1999.
**Estimated year end balance assuming historic 9 percent rate of growth.

Table 4-02 shows the historic and projected fund balance for the telephone line tax supporting MTAP. The actual ending fund balance for fiscal 2000 was $832,301. Revenues are projected to grow at rates of 5 percent annually, which is about half the historic rate of growth. This leaves a projected ending fund balance of approximately $860,000 in fiscal 2003. If revenue growth continues at historic rates, the ending fund balance would be slightly more than $1 million.

LFD ISSUE

The ending fund balance of the state special revenue fund supporting the MTAP program is projected to equal nearly one year's annual budget. The legislature could consider whether to leave the balance, modify the tax rate, or transfer some of the balance to the general fund. Section 53-19-310, MCA would need to be amended to allow transfer of some of the telecommunications cash balance to the general fund or to reduce the tax rate. If revenue growth continues at historic levels, and if the two LFC issues identified in decision packages 200 and 98 are considered, the legislature could consider transferring up to $750,000 to the general fund.

LFD ISSUE

Two other administrative program issues affect program expenditure levels and ending fund balance:

1) Means testing for MTAP eligibility; and
2) Inclusion of a new disability type eligible to receive services.

Potential legislative action relative to these issues could affect program expenditures as well as the projected ending fund balance in the telephone line tax state special revenue account.

Means Testing

Section 53-19-306 (1), MCA, requires the MTAP to establish an appropriate means test for participation in the program. Statute does not define "appropriate."

The MTAP has established income eligibility for individuals but not for families. Financial eligibility for an individual is established for incomes of less than $35,000 annually, which is 419 percent of the year 2000 federal poverty level. Most other means-tested programs administered by DPHHS, and which are supported solely by state funds, have established eligibility at less than 200 percent of the federal poverty level. Most other means-tested programs have also established means testing for families.

The Director of Legal Services of the Legislative Services Division, in reviewing Section 53-19-306(1), MCA, commented that the delegation of authority allowing the Executive Branch to establish a means test is a very broad delegation of legislative authority. This statute is potentially in violation of Article III, Section 1 of the Montana Constitution, which describes separation of powers among the branches of state government.

LFD ISSUE (Continued)

The legislature may wish to discuss whether:

1) Financial eligibility for MTAP is adequate;
2) MTAP should establish means tests for families with eligible individuals; or
3) Section 53-19-306(1), MCA, should be amended to define an upper income eligibility limit.

Depending upon the legislative policy decisions made with respect to these issues, an amendment to statute may be required.

New Disability Type
Section 53-19-302(3), MCA, defines a person with a disability to be "a person who is deaf and blind, deaf, hard-of-hearing or speech impaired." MTAP recently added "mobility impaired" to the list of disabilities qualifying a person to receive telecommunication services. That change extends eligibility for program services not contemplated by the legislature. The legislature may wish to determine whether to:

1) Amend Section 53-19-302(3), MCA, to expand the definition of person with a disability to include mobility impairment; or
2) Instruct MTAP to adhere to existing statutory guidelines in program design.

Present Law Adjustments	Fiscal 2002					Fiscal 2003				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					150,257					158,406
Vacancy Savings					(39,098)					(39,341)
Inflation/Deflation					2,554					4,835
Fixed Costs					10,142					11,408
Total Statewide Present Law Adjustments					**$123,855**					**$135,308**
DP 200 - MTAP Sprint Relay	0.00	0	202,583	0	202,583	0.00	0	262,370	0	262,370
Total Other Present Law Adjustments	**0.00**	**$0**	**$202,583**	**$0**	**$202,583**	**0.00**	**$0**	**$262,370**	**$0**	**$262,370**
Grand Total All Present Law Adjustments					**$326,438**					**$397,678**

Executive Present Law Adjustments
The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

<u>DP 200 - MTAP Sprint Relay -</u> The Executive Budget is requesting $464,953 state special revenue over the biennium to meet increased contract costs associated with relay services for the MTAP. The MTAP provides telephone service and equipment for persons who are deaf or hard of hearing. The request is for anticipated rate increases as well as a 10 percent annual utilization growth based on historic changes made since 1989

MTAP currently contracts for telephone relay services. The contractor has informed DPHHS that it will increase the per-minute charge for relay services as a result of new Federal Communication Commission rulings on standard mandatory relay services. The base budget rate is $1.20 per relay minute. The Executive Budget is based on a rate of $1.50 per minute (a 25 percent increase).

MTAP is funded from state special revenue through a monthly 10-cent charge on each telephone line.

New Proposals

	Fiscal 2002					Fiscal 2003				
Prgm	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 96 - AmeriCorps*VISTA Program										
04	0.00	0	70,000	0	70,000	0.00	0	70,000	0	70,000
DP 97 - MTAP Human Services Specialist FTE										
04	1.00	0	36,439	0	36,439	1.00	0	36,566	0	36,566
DP 98 - MTAP Moter Pool Vehicles										
04	0.00	0	4,288	0	4,288	0.00	0	5,566	0	5,566
DP 156 - Prevention Resource Center										
04	1.50	30,054	6,279	27,678	64,011	1.50	29,975	6,263	27,607	63,845
Total	**2.50**	**$30,054**	**$117,006**	**$27,678**	**$174,738**	**2.50**	**$29,975**	**$118,395**	**$27,607**	**$175,977**

New Proposals

DP 96 - AmeriCorps*VISTA Program - DPHHS is requesting $140,000 in state special revenue over the biennium to maintain the current number of AmeriCorps*VISTA volunteers, and to continue the AmeriCorps*VISTA contract with the Corporation for National and Community Service (CNCS). There are currently 5 cost-share volunteers and 20 CNCS supported volunteers in Montana. DPHHS anticipates that five more cost-share volunteers will be placed in fiscal 2001. The state special revenue is an annual fee paid by the community program requesting AmeriCorps*VISTA services.

Each community program must submit an outline of the project the volunteer will be involved with as well as the project duration. The fee paid by the community is based upon the number of years needed to accomplish project goals.

DP 97 - MTAP Human Services Specialist FTE - The Executive Budget includes $73,005 state special revenue over the biennium for 1.0 FTE human services specialist position for MTAP. This position will be responsible for providing installation, service and training in use of telephone devices and related equipment for deaf and hearing-impaired Montanans.

The 1999 Legislature appropriated approximately $46,000 annually to hire a consultant to provide installation, service and training during the 2001 biennium. DPHHS determined that an FTE could perform these duties at a savings of $20,000 over the biennium, as compared to the cost of using contracted services. Currently these services are being provided by 1.00 modified FTE.

LFD COMMENT

The Executive Budget requests only the salary and benefits cost of the FTE. If rent, travel and other operating costs are included, the cost of an FTE may not be as efficient as using contracted services.

DP 98 - MTAP Moter Pool Vehicles - The Executive Budget includes $9,854 in state special revenue over the biennium, which will be used to lease two vehicles from the Department of Transportation. MTAP employees would use the vehicles for distribution and training in the use of equipment, and to provide equipment service. DPHHS estimates that biennial travel expenditures for two employees using private cars would be $19,500, as compared to the cost to lease passenger cars for $12,702.

LFD ISSUE

DPHHS is requesting additional spending authority when base budget expenditures may be adequate to cover a motor pool lease, depending upon the model of vehicle leased. The Executive Budget includes one of the most expensive lease options. If a smaller vehicle - such as a Jeep Cherokee or other all-terrain vehicle - were leased, the legislature would be able to refrain from taking action or could increase the budget by $118 in fiscal 2002 and $127 in fiscal 2003. Given these scenarios, the department could still lease two vehicles.

DP 156 - Prevention Resource Center - The Executive Budget includes $127,856, including $47,307 general fund, over the biennium for an additional 1.50 FTE to provide staff for the Interagency Coordinating Council on State Prevention (ICC) and the Prevention Resource Center. The ICC is statutorily mandated (section 2-15-225, MCA, enacted by the 1993 legislature).

The Prevention Resource Center was created in 1996 by DPHHS, when the VISTA program was initiated. The Prevention Resource Center is a central, statewide resource for prevention-related materials. It publishes the Prevention Connection newsletter and manages the related contract, administers the AmeriCorps*VISTA program, and carries out the statutory duties of the ICC. The Prevention Resource Center is currently staffed with two 0.50 FTE program officers.

LFD ISSUE

The legislature may wish to review the specific duties of each FTE requested. The identified workload increase supporting the justification to add 1.50 FTE is primarily dependent on an increase in the number of the AmeriCorps*VISTA program volunteers who are placed in Montana during fiscal 2001. It appears that only 0.50 FTE would be used to support program expansion. Funding for that FTE should be supported by state special revenue and federal funds.

The remaining 1.0 FTE is requested to support the two 0.5 FTE program officers in managing the ICC and Prevention Resource Center programs, thus ensuring full compliance with program guidelines. It is unclear from documentation in the Executive Budget what type of workload increase would be managed by the FTE.

The legislature may also wish to consider whether other, newly-initiated agency projects managed by the ICC and the Prevention Resource Center are contributing to the need for additional staff. For instance, DPHHS initiated a new agencywide advisory council in the fall of 2000, which is supported by staff from these units.

Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	189.75	0.00	2.00	191.75	0.00	2.00	191.75	191.75
Personal Services	6,071,450	778,337	80,374	6,930,161	814,543	80,657	6,966,650	13,896,811
Operating Expenses	2,278,971	177,415	1,012,414	3,468,800	155,408	890,000	3,324,379	6,793,179
Equipment	0	0	0	0	0	0	0	0
Local Assistance	6,249	0	0	6,249	0	0	6,249	12,498
Debt Service	12,458	0	0	12,458	0	0	12,458	24,916
Total Costs	**$8,369,128**	**$955,752**	**$1,092,788**	**$10,417,668**	**$969,951**	**$970,657**	**$10,309,736**	**$20,727,404**
General Fund	211	(211)	0	0	(211)	0	0	0
State/Other Special	2,327,013	710,199	338,548	3,375,760	714,735	330,023	3,371,771	6,747,531
Federal Special	6,041,904	245,764	754,240	7,041,908	255,427	640,634	6,937,965	13,979,873
Total Funds	**$8,369,128**	**$955,752**	**$1,092,788**	**$10,417,668**	**$969,951**	**$970,657**	**$10,309,736**	**$20,727,404**

Program Description

The Child Support Enforcement Division (CSED) 2003 biennium budget request is $4.0 million greater than the 2001 biennium. Present law adjustments add $1.9 million; new proposals add an additional $2.1 million. The Executive Budget request is funded entirely with state special revenue and federal funds and includes no general fund support for CSED.

The most significant changes in the Executive Budget include:

- ?? $1.1 million for an increased level of effort for the System for Enforcement and Recovery of Child Support (SEARCHS);
- ?? $ .4 million in funding for contracted services to prosecute criminal nonsupport cases; and
- ?? $ .3 million in funding for financial institution data matches.

Since the passage of the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA) - legislation establishing welfare reform - the majority of significant policy decisions faced by CSED have been related to welfare reform. PRWORA requirements impacting CSED include:

1) The requirement to collect Social Security Numbers from all individuals applying for recreational licenses;
2) New hire reporting requirements; and
3) Financial institution data matches.

Other significant federal legislation included the Child Support Performance and Incentive Act of 1998, which mandated a revised method for calculating incentive payments.

States must maintain a child support enforcement plan meeting the specific requirements of:

1) Title IV-D of the Social Security Act in order to receive federal funds available under Title IV-D; and
2) PRWORA in order to receive the federal Temporary Assistance for Needy Families (TANF) block grant.

Funding

Table 1 summarizes the funding of CSED for the 2003 biennium as compared to the fiscal 2000 base budget. The 2003 biennium budget for CSED is funded by state special revenue (approximately 33 percent) and federal funds (approximately 67 percent). The primary sources of state special revenue for CSED consist of:

Table 1
Child Support Enforcement Division Funding Summary

Fund Source	Fiscal 2000 Base Budget	Budget Request Fiscal 2002	Fiscal 2003	Percent of Total
General Fund	$ 211	$ -	$ -	0.0%
Percent of Total	0.0%	0.0%	0.0%	
State Special Revenue				
Child Support State Share	2,327,013	3,375,760	3,371,771	32.7%
Subtotal State Special Revenue	2,327,013	3,375,760	3,371,771	32.7%
Percent of Total	27.8%	32.4%	32.7%	
Federal Funds				
TANF Benefits	198,281	247,331	248,190	2.4%
Access and Visitation Grant	41,858	100,000	100,000	1.0%
Child Support IVD 66 percent	5,718,559	6,610,198	6,505,396	63.1%
Child Support IVD 90 percent	83,206	84,379	84,379	0.8%
Subtotal Federal Funds	6,041,904	7,041,908	6,937,965	67.3%
Percent of Total	72.19%	67.60%	67.30%	
Total Funds	$ 8,369,128	$ 10,417,668	$ 10,309,736	100.0%

1) Retention of the state's share of child support collections for clients who receive or have received assistance from Families Achieving Independence in Montana (FAIM), Montana's TANF program; and
2) Performance-based incentive funds awarded by the federal government.

The state share of child support collections is equal to the federal medical assistance participation rate. This amount is estimated to be 27.12 percent in fiscal 2002 and 26.98 percent in fiscal 2003. Revenue generated from the retention of the state share of FAIM collections declined between fiscal 1997 and fiscal 2000, as did Montana's FAIM caseload.

Chart 1 illustrates the decrease of the state's share of FAIM collections between fiscal 1997 and fiscal 2000.

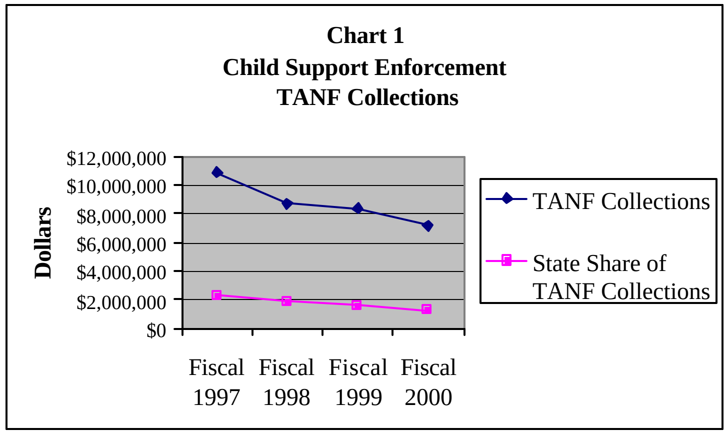
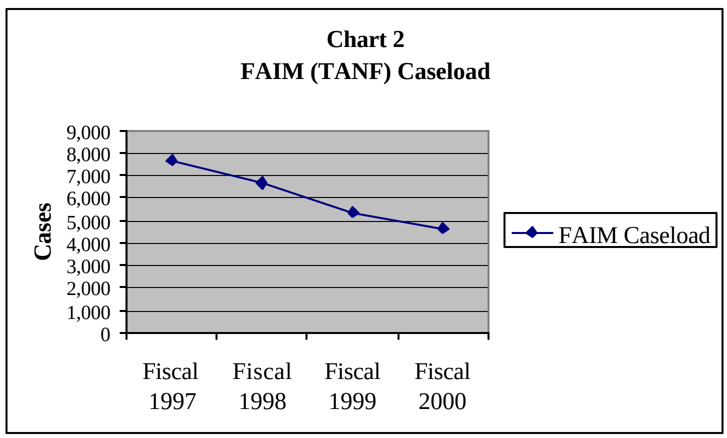


Chart 2 illustrates the decline in the FAIM caseload between fiscal 1997, the year that marked the beginning of welfare reform, and fiscal 2000.



Revenue generated from the retention of the state's share of FAIM collections is expected to continue to decline slightly over the 2003 biennium. However, the change in the methodology used to calculate federal incentives has proven beneficial for Montana. Revenue collected from federal incentive funds are projected to increase between fiscal 2000 and fiscal 2003, the phase-in period for this change. State special revenue from federal incentive funds is expected to be slightly over $3.0 million and is anticipated to stabilize at that level.

Other sources of federal funds supporting CSED include:

1) The Temporary Assistance for Needy Families (TANF) block grant ($495,521), which supports 7.0 FTE liaisons whose duties are to help welfare recipients and workers in welfare offices understand child support; and
2) The Access and Visitation Grant ($200,000), a federal grant with the objective of facilitating access to and visitation with their children by noncustodial parents.

LFD COMMENT

The 1999 legislature appropriated general fund monies of $1.3 million to CSED as a one-time-only appropriation because state special revenue collections were expected to decline to 26 percent of the funds needed to operate the division. During the 1999 legislative session, it was anticipated that state special revenue would decline due to:

1) A reduction in FAIM caseloads;
2) Changes in federal regulations governing the distribution of child support collections; and
3) Changes in federal regulations governing the distribution of federal child support collection incentive funds.

The 1999 legislature also appropriated approximately $1.4 million from the general fund for the 2001 biennium in support of SEARCHS system costs previously funded with state special revenue from child support collections and incentive funds. In summary, the 1999 legislature provided $2.7 million from the general fund to support costs previously supported by state special revenue generated by CSED.

CSED expended the general fund appropriated for the 2001 biennium. Because this was designated one-time-only (OTO) funding, it was not included in the division's base budget for the 2003 biennium. The Executive Budget does not request any general fund support for this program in the 2003 biennium. However, the Executive Budget does request continued general fund support for SEARCHS costs included by the Operations and Technology Division.

LFD ISSUE

As illustrated by Table 2, state special revenue collected during fiscal 2000 was inadequate to meet all CSED expenditures and SEARCHS system costs. If these costs had been funded through state special revenue collections, the child support state share fund would have a deficit of approximately $440,000 in fiscal 2000 and an estimated $750,000 in fiscal 2001.

Because some CSED and SEARCHS costs were supported by the general fund in fiscal 2000, the child support state special revenue account had a balance of approximately $1.1 million at the end of fiscal 2000 (see Table 2). The ending balance in the child support state share fund suggests that the general fund support used for CSED and SEARCHS costs in fiscal 2000 was greater than necessary. Section 17-2-108, MCA provides for the expenditure of nongeneral fund money first, and states that general fund appropriations will be reduced and nongeneral fund appropriations increased if the nongeneral fund money can be substituted. Thus, the department could have reduced the general fund appropriation for fiscal 2000 and utilized state special revenue instead.

Table 2
Summary of State Special Revenue Fund - Child Support Collections
Comparison of 2001 Biennium with and without General Fund Support

	2001 Biennium with General Fund Support		2001 Biennium without General Fund Support		
Description	Fiscal 2000	Fiscal 2001	Fiscal 2000	Fiscal 2001	
Beginning Balance	$ 400,949	$ 1,140,397	$ 400,949	$ (439,781)	
Revenues:					
State Share of TANF Collections	1,242,632	1,180,500	1,242,632	1,180,500	
Federal Incentive Funds	1,946,280	2,689,863	1,946,280	2,689,863	
Other Revenue	23,162	18,000	23,162	18,000	
Total Revenues	$ 3,212,074	$ 3,888,363	$ 3,212,074	$ 3,888,363	
Expenditures:					
CSED Adjusted Base Budget*	2,327,013	2,420,196	2,327,013	2,420,196	
CSED Present Law Adjustments					
CSED New Proposals					
Cost Allocation	145,613	150,000	145,613	150,000	
Costs Supported by General Fund:					
CSED			647,042	667,379	*
SEARCHS System*	-	-	933,136	961,130	*
Total Expenditures	$ 2,472,626	$ 2,570,196	$ 4,052,804	$ 4,198,705	
Revenue Over (Under) Expenses	739,448	1,318,167	(840,730)	(310,342)	
Ending Balance	$ 1,140,397	$ 2,458,564	$ (439,781)	$ (750,123)	

*Notes:
CSED is the Child Support Enforcement Division.
SEARCHS is the System for the Enforcement and Recovery of Child Support.
In the 2001 biennium CSED received a general fund subsidy of $1.3 million.
In the 2001 biennium SEARCHS system costs were funded with general fund instead of state special revenue from child support collections.
Fiscal 2001 costs supported by general fund are estimated for CSED to be equal the fiscal 2001 general fund appropriation and for SEARCHS to be equal to fiscal 2000 costs plus 3 percent inflation.

LFD ISSUE

As Table 3 indicates, if SEARCHS system costs and the budgetary increases requested by CSED are funded from state special revenue, the expenditures in each year of the 2003 biennium will exceed anticipated revenues. However, 2003 biennium expenditures in excess of revenues collected could be funded with state special revenue since a balance of approximately $2.5 million is anticipated in this fund by the end of fiscal 2001. While this strategy reduces general fund needs in the 2003 biennium, it does not resolve the ongoing structural balance of the child support collection state special revenue fund. The solvency of the fund cannot be maintained if expenditures exceed revenues on an ongoing basis.

In summary, two issues must be considered:

1) Some or all of the SEARCHS costs included in the Operation Technology Division budget and funded by general fund could be funded by state special revenue from child support collections; and
2) While the ending fund balance is sufficient to provide adequate state special revenue to fund SEARCHS and CSED costs in the 2003 biennium, ongoing revenues are not adequate to sustain ongoing expenditures of state special revenue.

Table 3
Summary of State Special Revenue Fund - Child Support Collections
Actual Fiscal 2000 and Projected Fiscal 2001, 2002 and 2003

Description	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
Beginning Balance	$ 400,949	$ 1,140,397	$ 2,458,564	$ 1,943,072
Revenues:				
State Share of TANF Collections	1,242,632	1,180,500	1,121,475	1,065,402
Federal Incentive Funds	1,946,280	2,689,863	2,965,620	3,035,588
Other Revenue	23,162	18,000	18,000	18,000
Total Revenues	3,212,074	3,888,363	4,105,095	4,118,990
Expenditures:				
CSED Adjusted Base Budget*	2,327,013	2,420,196	3,002,016	3,015,360
CSED Present Law Adjustments			35,196	26,388
CSED New Proposals			338,548	330,023
Cost Allocation	145,613	150,000	150,000	150,000
SEARCHS System *	-	-	1,094,827	1,160,660
Total Expenditures	2,472,626	2,570,196	4,620,587	4,682,431
Revenue Over (Under) Expenses	739,448	1,318,167	(515,492)	(563,441)
Ending Balance	$ 1,140,397	$ 2,458,564	$ 1,943,072	$ 1,379,631

*Notes:
CSED is the Child Support Enforcement Division
SEARCHS is the System for the Enforcement and Recovery of Child Support
In the 2001 Biennium budget CSED received a general fund subsidy of $1.3 million.
In the 2001 Biennium budget SEARCHS system costs were funded with general fund instead of state special revenue from child support collections.

The future solvency of the child support collection state special revenue fund is further impacted by pending federal legislation that would change the regulations regarding pass-through of child support payments to families. This legislation would mandate that child support collected for families formerly on welfare be passed through to the family. States would no longer be able to retain a portion of the collections. If this legislation is enacted, collections of state special revenue would likely decline. Additionally, it is unclear how the current requirement to repay the federal government its share of collections would be altered.

This legislation might contain a provision that the state would not have to repay the federal government its share of collections and/or a provision that all or part of the revenue lost due to pass-through of child support could be funded with federal TANF funds. Ultimately, however, the financial implications of this legislation cannot be quantified at this time.

The legislature may wish consider the following questions and considerations.

1) Should state special revenue from child support collections be used to support SEARCHS costs in the Operations Technology Division?
   a) If 100 percent of the general fund costs included in the Operations Technology Division budget for SEARCHS are funded with state special revenue rather than general fund, the state special revenue fund would have a projected ending fund balance of $1.4 million at the end of the 2003 biennium.
   b) Expenditures in the child support state special revenue fund could be balanced with expected revenues by funding $1,078,933 of CSED and/or SEARCHS costs funded in Operations Technology Division with general fund.
   c) Expenditures in the child support state special revenue fund could be balanced with expected revenues by reducing CSED costs and/or SEARCHS costs included in Operations Technology Division by $1,078,933.

LFD ISSUE (Continued)

d) General fund and/or state special revenue from child support collections could be replaced by charging fees to those customers able to pay for services received.

2) Does the legislature wish to provide general fund support for CSED or SEARCHS costs in the event that:
   a) Collections of state special revenue are less than projected;
   b) Federal legislation restricts the state's ability to retain a portion of child support collections and does not provide an alternate funding source for reduction in collections; or
   c) Federal legislation restricts the state's ability to retain a portion of child support collections and provides funding to replace the lost federal funds, but does not replace lost state special revenue.
3) What action should be taken in the event that more child support state special revenues become available for expenditure than were appropriated?
   a) Require the use of state special revenue rather than general fund in Operations Technology Division and that the general fund replaced by child support state special revenue funds be reverted to the general fund.
   b) Allow the child support collection state special revenue fund balance to grow.

Present Law Adjustments

	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					965,557					1,002,883
Vacancy Savings					(190,720)					(191,840)
Inflation/Deflation					(2,636)					(809)
Fixed Costs					41,786					43,858
Total Statewide Present Law Adjustments					**$813,987**					**$854,092**
DP 11 - Voice Response Unit Enhancements	0.00	0	10,200	19,800	30,000	0.00	0	0	0	0
DP 12 - Contract Adjustments	0.00	0	10,880	21,120	32,000	0.00	0	10,880	21,120	32,000
DP 13 - Office Lease Renegotiation for Inflation	0.00	0	3,005	5,833	8,838	0.00	0	4,397	8,535	12,932
DP 14 - Access and Visitation Grant	0.00	0	11,111	59,816	70,927	0.00	0	11,111	59,816	70,927
Total Other Present Law Adjustments	**0.00**	**$0**	**$35,196**	**$106,569**	**$141,765**	**0.00**	**$0**	**$26,388**	**$89,471**	**$115,859**
Grand Total All Present Law Adjustments					**$955,752**					**$969,951**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 11 - Voice Response Unit Enhancements - This decision package requests $30,000 in state special revenue and federal funds in the first year of the biennium for upgrades to the voice response system. System upgrades would allow customers more automated options, including access to more payment information and information regarding obligor notices. The department believes enhancement of the voice response unit would reduce the number of calls handled by the customer service unit and thus prevent an increase in additional costs due to increased call volume to the customer service unit.

The voice response unit and customer service unit work in conjunction with one another. All incoming calls go to the voice response unit in operation 24 hours per day, seven days per week. Once the voice response unit has answered a call, the caller may elect to speak with an individual in the customer service unit, or to gain automated information. The customer service unit operates during normal business hours (Monday through Friday, daytime). Reimbursement for the customer service unit is based, in part, on the volume of callers who opt to speak with a customer service representative. If the average call volume increases or decreases by 35 calls per day over the quarter, the cost of the customer service unit increases or decreases by $1,355 per month, respectively.

LFD ISSUE

The legislature may want to consider designating this a one-time-only appropriation since it is for system upgrades rather than ongoing needs.

DP 12 - Contract Adjustments - This decision package requests $64,000 in state special revenue and federal funds for the biennium, and would fund adjustments in contracts for the Customer Service Unit ($24,000) and the New Hire Reporting ($40,000).

The department contracts with MAXIMUS for a customer service center that responds to all incoming calls for state child support offices. In fiscal 2000, the customer service center received 177,234 calls, an average of approximately 700 calls per day. The current contract for the customer service unit expires June 30 2001, and a request for proposals (RFP) will be issued to select a contractor to provide services beyond the end of the existing contract. (Please refer to the narrative for DP 11 for information regarding the relationship between the voice response unit and the customer service unit.)

The department contracts with the Department of Revenue (DOR) for new hire reporting, a federal requirement of PRWORA. Since October 1, 1997, employers have been required to report within 20 days every employee hired, rehired or returning to work after a separation.

DP 13 - Office Lease Renegotiation for Inflation - This decision package requests $21,770 for the biennium for increased costs for office leases for non Department of Administration rent. This represents an increase of 2.6 percent in fiscal 2002 and an additional 1.1 percent in fiscal 2003.

LFD ISSUE

Several departmental divisions maintain field offices and thereby incur rent expenses. The legislature may wish to consider this an agencywide issue. (Please see the agency narrative.)

DP 14 - Access and Visitation Grant - This decision package requests $141,854 of state special revenue and federal funds for the biennium for the Access and Visitation Grant. Although the Child and Family Services Division formerly administered the Access and Visitation Grant, funding for and administration of this grant was transferred to the Child Support Enforcement Division during fiscal 2000. The purpose of this grant is to facilitate non-custodial parents' access to and visitation with their children. Activities funded by this grant may include mediation, counseling, education, development of parenting plans, visitation enforcement, development of visitation guidelines and development of alternative custody arrangements. Beginning in federal fiscal 1999, a ten percent match has been required in order to receive the federal grant.

LFD ISSUE

HB 2 by the 1999 legislature stated that, "the department may not use general fund money to support a program developed to facilitate non-custodial parents' access to their children." Beginning in federal fiscal 1999, the access and visitation grant requires matching funds of ten percent per year ($10,000). Although the department did not request additional general fund for this purpose, in fiscal 2000 the department used a small amount of general fund ($211) to fulfill the match requirement. The 2003 biennium budget utilizes state special revenue as the source of matching funds. The use of general fund to match the federal grant may be a violation of HB 2. The legislature may wish to clarify whether or not general fund and/or state special revenue may be used as match for the access and visitation grant.

New Proposals

		Fiscal 2002					Fiscal 2003				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 10 - Funding of 2 FTE										
05	2.00	0	27,327	53,047	80,374	2.00	0	27,423	53,234	80,657
DP 99 - (SEARCHS) Level of Effort Increase										
05	0.00	0	183,600	356,400	540,000	0.00	0	183,600	356,400	540,000
DP 100 - Financial Institutions Data Match										
05	0.00	0	51,000	99,000	150,000	0.00	0	51,000	99,000	150,000
DP 101 - Criminal Non Support Prosecutions										
05	0.00	0	68,000	132,000	200,000	0.00	0	68,000	132,000	200,000
DP 501 - Cost Study of Raising a Child in Montana										
05	0.00	0	8,621	113,793	122,414	0.00	0	0	0	0
Total	**2.00**	**$0**	**$338,548**	**$754,240**	**$1,092,788**	**2.00**	**$0**	**$330,023**	**$640,634**	**$970,657**

New Proposals

DP 10 - Funding of 2 FTE - This decision package requests state special revenue and federal funding for 2.0 FTE at Grade 14, 1.0 FTE for a paralegal and 1.0 FTE for an Obligor Liaison. CSED has been using modified FTE to perform these duties and is now seeking funding for the positions. The paralegal would complete legal research and assist the CSED central office attorney. The Obligor Liaison would be responsible for promoting good relationships with obligors by doing outreach and by assisting obligors in understanding their roles and responsibilities in terms of the process of collecting child support.

DP 99 - (SEARCHS) Level of Effort Increase - This decision package requests $1,080,000 for the biennium to increase the level of effort on the SEARCHS maintenance contract by 6.0 FTE.

LFD ISSUE

The costs of the SEARCHS system maintenance contract are included in the Operations and Technology Division budget. For this reason, the LFD questions the inclusion of this decision package in the CSED budget. The legislature may wish to consider this decision package in conjunction with the Operations Technology Division budget.

This decision package would increase the SEARCHS facility management contract from its fiscal 2000 level of $1.5 million to approximately $2.1 million, or by 35 percent. SEARCHS costs included in the Operations Technology Division budget are funded with general fund and federal funds; the Executive Budget has proposed funding SEARCHS costs in the CSED budget with state special revenue and federal funds. Please refer to the funding section of the CSED narrative for additional information on state special revenue from child support collections.

DP 100 - Financial Institutions Data Match - This decision package requests $300,000 in state special revenue and federal funds for the biennium to fund fees paid to financial institutions for processing matches against child support obligors in arrears in meeting child support obligations. PRWORA requires that states enter into agreements with financial institutions conducting business within their state for the purpose of completing data matches in order to locate accounts belonging to parents delinquent in child support. Data matches with financial institutions must be completed each calendar quarter. Once an account has been identified by the data match, the account may be frozen and seized to satisfy the parent's child support obligation. The financial institution data match is also a requirement for federal certification of SEARCHS.

LFD ISSUE

Section 40-5-924(7), MCA requires the department to pay a reasonable fee to the financial institution completing a data match. However, this is a relatively new federal requirement and the department has little information and experience in projecting the actual costs of performing data matches. Given the limited experience surrounding financial institution data matches and the costs of completing this function, the legislature may wish to restrict funds appropriated for this purpose.

<u>DP 101 - Criminal Non Support Prosecutions -</u> This decision package requests $400,000 in state special revenue and federal funds for the biennium to contract for prosecution of criminal nonsupport cases. The department indicates that many county attorneys face a backlog of criminal cases, many of which involve violent crimes and therefore have higher priority status. This means that county attorneys cannot pursue prosecution of criminal nonsupport orders. In cases in which CSED has no other means of collection, CSED proposes using contracted services to prosecute cases of obligors who purposely evade collection efforts and yet have the ability to pay.

LFD ISSUE

CSED could contract with county attorneys who could, in turn, hire additional staff to prosecute these cases. Alternatively, CSED could contract with the Department of Justice in order to provide assistance to county attorneys in the prosecution of these cases. Further assistance to county attorneys could be provided by contracting services to perform investigations and other legal work leading to prosecution. However, because prosecutorial authority is delegated to the county attorney, CSED could not hire an attorney in private practice to prosecute these cases.

Assumption of this function by the executive branch shifts responsibility and costs from counties (and the judicial branch) to the executive branch of government. This could change the relationship between counties and the judicial and executive branches of government. The 1999 legislature appropriated funding to the Department of Justice for five FTE attorneys to assist county attorneys with the workload and complexity of child abuse and neglect cases. The feasibility of these attorneys prosecuting criminal nonsupport cases for CSED should be assessed.

<u>DP 501 – Cost Study of Raising a Child in Montana –</u> The department requests state special revenue and federal funding of $122,414 in the first year of the biennium to complete and administer a study of the cost of raising a child in the State of Montana. The results of this study would be utilized in the periodic review of the Uniform Child Support Guidelines prescribed by 40-5-209, MCA.

Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	146.52	7.00	10.35	163.87	7.00	10.35	163.87	163.87
Personal Services	6,226,859	281,028	393,648	6,901,535	322,214	395,010	6,944,083	13,845,618
Operating Expenses	15,603,433	1,489,154	3,160,953	20,253,540	1,484,454	4,501,372	21,589,259	41,842,799
Equipment	336,877	24,000	99,657	460,534	0	99,657	436,534	897,068
Capital Outlay	0	0	0	0	0	0	0	0
Grants	6,527,225	50,000	0	6,577,225	50,000	0	6,577,225	13,154,450
Benefits & Claims	209,802,306	49,662,329	4,250,113	263,714,748	63,236,641	10,196,207	283,235,154	546,949,902
Debt Service	2,576	0	0	2,576	0	0	2,576	5,152
Total Costs	**$238,499,276**	**$51,506,511**	**$7,904,371**	**$297,910,158**	**$65,093,309**	**$15,192,246**	**$318,784,831**	**$616,694,989**
General Fund	48,619,148	7,697,421	1,303,043	57,619,612	9,857,291	2,301,433	60,777,872	118,397,484
State/Other Special	11,561,315	2,772,610	481,844	14,815,769	4,027,973	880,253	16,469,541	31,285,310
Federal Special	178,318,813	41,036,480	6,119,484	225,474,777	51,208,045	12,010,560	241,537,418	467,012,195
Total Funds	**$238,499,276**	**$51,506,511**	**$7,904,371**	**$297,910,158**	**$65,093,309**	**$15,192,246**	**$318,784,831**	**$616,694,989**

Program Description

The Health Policy and Services Division is responsible for the planning and implementation of statewide health policy. The purpose of the division is to improve and protect the health and safety of Montanans. The division provides a wide range of preventive, primary, acute care, and public health services to individuals and communities through contracts with a broad range of private and public providers, including physicians, public health departments, clinics, and hospitals. The division administers public health programs including, but not limited to Women's Infants and Children's Special Nutrition Program (WIC), Maternal and Child Public Health Services, Immunization Programs, STD/HIV prevention, Emergency Medical Services, Family Planning, Abstinence Education, acute and primary care components of the Medicaid Program and the Children's Health Insurance Program (CHIP). Public health is administered at both the state level and at the local level through contract arrangements with local public health and other health service agencies. The division contracts with over 500 non-profit providers for the delivery of health care services. The Medicaid Program is a voluntary state/federal partnership to provide and finance these services for low-income persons who are aged, blind, or disabled, or in families with dependent children. To be eligible for Medicaid, an individual must meet income and resource guidelines and be included in a family with dependent children or be determined by SSI to be elderly or disabled. The division administers the CHIP Program through a contract with an insurance plan. The division also manages the functions of the tumor registry and the environmental laboratory.

Biennial Budget Comparison

Table 7-01 compares the 2001 biennium to the 2003 biennium Executive Budget request for this division. The 2001 biennium includes actual expenditures for the fiscal 2000 base budget year and fiscal 2001 appropriations. The 2001 biennium does not include the supplemental appropriation requested in HB 3 for Medicaid services of $10.4 million total funds, including $2.8 million general fund.

Table 07-01
2001 Biennium Compared to 2003 Biennium
Health Policy and Services Division

Budget Item/Fund	2001 Biennium	2003 Biennium	Change	Percent of Total
Personal Services	12,349,017	13,845,618	1,496,601	1.2%
Operating	30,734,301	41,842,799	11,108,498	8.8%
Equipment	580,114	897,068	316,954	0.3%
Grants	15,962,396	13,154,450	(2,807,946)	-2.2%
Benefits/Claims	431,063,952	546,949,902	115,885,950	92.0%
Debt Service	3,371	5,152	1,781	0.0%
Total Costs*	490,693,151	616,694,989	126,001,838	100.0%
General Fund	100,090,852	118,397,484	18,306,632	14.5%
State Special	21,488,541	31,285,310	9,796,769	7.8%
Federal Funds	369,113,758	467,012,195	97,898,437	77.7%
Total Funds*	490,693,151	616,694,989	126,001,838	100.0%
Percent Increase			20.4%	

*The 2001 biennium does not include the supplemental request.

The 2003 biennium budget request is $126 million total funds higher as compared to the 2001 biennium. That difference is $116 million if the supplemental request is considered. The bulk of the increase is due to growth in: 1) Medicaid benefits, including caseload increases, inflation, and proposed provider rate increases; and 2) annualization of CHIP enrollment and a proposal to increase CHIP financial eligibility to 175 percent of the federal poverty level in fiscal 2003.

The increase in operating costs (about 9 percent) and the decline in grants (about 2 percent) are related. The legislature appropriated $2.1 million for tobacco prevention and control grants annually, while the division expended the appropriations as operating costs. That action caused operating costs to increase by $4.2 million and grant costs to decline when the 2003 biennium is compared to the 2001 biennium. Increases in several federal grants partially offset the total reductions in grants. Expenditure of funds that provide services or public benefits to individuals in the operating expense category overstates government operating costs and understates grant and benefit expenditures.

Other operating cost increases in the Executive Budget are $2.2 million to replace or enhance existing computer systems and $4 million in new or increased federal grants for specific activities that are budgeted as operating costs.

Personal services costs increase due to addition of 17.35 new FTE, including 6.0 FTE to administer the eligibility process for CHIP.

The remaining budget tables compare the Executive Budget request to base budget expenditures. Biennial increases included in those tables do not explain the amount of the increase due to the incremental change in appropriations for fiscal 2001. Those incremental changes are included as part of the present law adjustments for fiscal 2002 and 2003.

Program Narrative

The Health Policy and Services Division (HPSD) budget request is $140 million higher over the 2003 biennium, when compared to base budget expenditures. As summarized in the Proposed Program Budget table, present law adjustments add $117 million, including $18 million general fund, and new proposals add $23 million, including $4 million general fund.

LFD COMMENT

The executive made funding changes to the base budget that add $3.3 million general fund above the base budget funding. These changes are not presented as present law adjustment items for legislative consideration.

The most significant base funding change is a $3.1 million reduction over the biennium in 9-mill assumed county levy state special revenue that is offset by a like increase in general fund. The other significant change is a $0.3 million increase in general fund in the CHIP program. The program used state special revenue from insurance settlements as matching funds in fiscal 2000, but discontinued the state special revenue in the 2003 biennium and increased general fund by a like amount.

Significant Budget Proposals

The biennial cost of the most significant present law adjustments and new proposals in the Executive Budget request are:

- ?? Medicaid caseload growth and cost increases of $51.3 million, including $11.2 million general fund;
- ?? Changes in response to legislative audit findings that require budgeting of expenditures that were abated in the base budget of $44 million total funds, including $10.1 million state special revenue;
- ?? Annualization of CHIP start up during the 2001 biennium and expansion of financial eligibility to 175 percent of the federal poverty level during fiscal 2003, at a cost of $23.7 million, including $4.5 million general fund and 6.0 FTE;
- ?? Provider rate increases of $9.8 million, including $1.9 million general fund and $0.8 million interest from the newly created tobacco settlement proceeds constitutional trust fund;
- ?? Eleven new or increased federal grants that add $5.9 million and 4.5 FTE;
- ?? A $2 million federal funding request for Medicaid outreach efforts; and
- ?? Elimination of the resources/assets test for Medicaid eligibility for low-income pregnant women and children, which adds $1.6 million total funds, including $0.8 million general fund.

Intergovernmental Transfer Program not Included in Division Budget Request

HPSD has requested federal Health Care Financing Administration approval of an intergovernmental transfer program for county funded hospitals. The program complies with draft federal rules. Under the program, counties could transfer revenue to DPHHS to be used as the state match to draw down federal Medicaid matching funds. County hospital rates would be increased to 90 percent of the allowable upper payment limit based on Medicare cost principles. Intergovernmental transfer programs are reviewed in the agency narrative.

LFD ISSUE The legislature may wish to request that HPSD present this proposal for review during appropriation hearings. Since this proposal increases rates paid to certain providers, it would be appropriate that the legislature review the program. If the legislature approves the proposal, it may want to indicate legislative review and approval of the program, as well as ensuring that expenditures are included in the base budget.

Table 7-02

Fiscal 2000 Base Budget Compared to 2003 Biennium Budget Request

	Fiscal 2000 Base				Fiscal 2002 Budget Request				Fiscal 2003 Budget Request				Percent
Function	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	of Total
Division Administration	$231,337	$19,542	$735,255	$986,134	$241,701	$20,541	$917,081	$1,179,323	$244,246	$20,711	$919,627	$1,184,584	0.4%
Medicaid Services	41,773,578	9,409,558	151,140,030	202,323,166	48,724,145	12,482,561	184,110,023	245,316,729	51,121,940	14,127,754	196,163,441	261,413,135	82.0%
Health Systems	4,002,134	21,784	3,451,305	7,475,223	3,987,155	275,244	4,055,260	8,317,659	3,993,581	275,244	4,041,727	8,310,552	2.6%
Family & Community Health	1,287,751	0	16,976,190	18,263,941	1,296,711	0	21,680,647	22,977,358	1,297,471	0	22,654,431	23,951,902	7.5%
Communicable Disease Prev.	655,785	1,974,280	2,893,957	5,524,022	722,479	2,037,423	3,491,082	6,250,984	723,660	2,045,832	3,499,372	6,268,864	2.0%
CHIP	668,563	136,151	3,122,076	3,926,790	2,647,421	0	11,220,684	13,868,105	3,396,974	0	14,258,820	17,655,794	5.5%
Total	$48,619,148	$11,561,315	$178,318,813	$238,499,276	$57,619,612	$14,815,769	$225,474,777	$297,910,158	$60,777,872	$16,469,541	$241,537,418	$318,784,831	100.0%
Percent of Total	20.4%	4.8%	74.8%	100.0%	19.3%	5.0%	75.7%	100.0%	19.1%	5.2%	75.8%	100.0%	
Compounded Annual Rate of Change from Fiscal 2000					8.9%	13.2%	12.4%	11.8%	7.7%	12.5%	10.6%	10.2%	

Division Budget Request by Function

Table 7-02 shows the budget request by major function compared to base expenditures.

Division administration increases about $400,000 over the biennium, largely due to a new proposal to add a federal grant to provide health screenings for exposure to lead.

Medicaid provides health services to low-income persons who are blind, aged, or disabled or in families with dependent children. Medicaid services account for 82 percent of the total fiscal 2003 budget request and increase $102 million, including $16 million general fund, over the biennium. Budget increases are largely due to growth in the number of persons eligible for services, inflation increases in the cost of drugs, proposed provider rate increases, eligibility outreach and an accounting change. A small part of the request is related to an expansion in eligibility for services for low-income pregnant women, infants, and children.

The Health Systems Bureau includes staff and resources that administer public health programs such as emergency medical services, emergency medical technician testing, licensing and re-certification, tobacco control, and diabetes control. The 2003 biennium budget request rises by almost $1.9 million from the fiscal 2000 base, largely due to federal grant increases of $1 million for tobacco control, cardiovascular disease, and emergency medical services and state special revenue increases of $0.5 million for trauma system implementation and additional licensure and certification activities for emergency medical technicians.

The Family and Community Health Bureau administers public health programs for children and families including the Women, Infants, and Children (WIC) program, Family Planning, the Montana Initiative for the Abatement of Mortality in Infants (MIAMI), and perinatal programs, Children's Special Health Services, and county grants from the Maternal and Child Health Block Grant. The budget request is $10 million greater than the base almost entirely due to increases in federal funds. The biggest changes are an accounting change and a computer system enhancement in the WIC program that adds $8.2 million federal funds over the biennium. A new federal grant for fetal alcohol syndrome education and prevention adds another $1.2 million.

The Communicable Disease Prevention Bureau oversees the Public Health Laboratory, AIDS and sexually transmitted disease prevention, sexual assault programs, and communicable disease and tuberculosis prevention programs. The budget request increases about $1.5 million over the biennium due to federal grants for bioterrorism preparedness ($900,000), and laboratory improvements ($150,000). State special revenue increases for laboratory staff ($130,000) and revenue transfers to counties to perform inspections ($100,000) are the other significant changes.

CHIP provides funds for an insurance program for children in families with incomes less than 150 percent of the federal poverty level ($25,575 for a family of 4 in 2000). The CHIP program, although accounting for only 5.5 percent of the total division budget request in fiscal 2003, shows the second largest change, adding $24 million, including $4.7 million general fund, over the biennium. CHIP is funded from a federal grant allocation of about $13 million, which requires a state match of about 19 percent.

Table 07-03 shows the individual grants and benefits base budget expenditures compared to the 2003 biennium budget and compared to the total division expenditures and budget request. Grants account for about 2 percent of the fiscal 2003 division budget request, while benefits comprise nearly 90 percent of the total. Together grants and benefits account for 87 percent of the general fund request in fiscal 2003.

Table 7-03

Fiscal 2000 Expenditures Compared to 2003 Biennium Executive Request by Major Function

Health Policy and Services Division

	Fiscal 2000 Actual Expenditures				Fiscal 2002 Budget Request				Fiscal 2003 Budget Request				Percent
Grant/Benefit	General Fund	SSR	Federal Funds	Total Funds	General Fund	SSR	Federal Funds	Total Funds	General Fund	SSR	Federal Funds	Total Funds	of Total
Total Division Expenditures/Budget	$ 48,619,148	$ 11,561,315	$ 178,318,813	$ 238,499,276	$ 57,619,612	$ 14,815,769	$ 225,474,777	$ 297,910,158	$ 60,777,872	$ 16,469,541	$ 241,537,418	$ 318,784,831	
GRANTS													
Women, Infants and Children	$ -	$ -	$ 3,188,175	$ 3,188,175	$ -	$ -	$ 3,188,175	$ 3,188,175	$ -	$ -	$ 3,188,175	$ 3,188,175	48.5%
Family Planning	-	-	1,076,903	1,076,903	-	-	1,076,903	1,076,903	-	-	1,076,903	1,076,903	16.4%
MIAMI	471,942	-	-	471,942	443,625	-	28,317	471,942	443,625	-	28,317	471,942	7.2%
Maternal/Child Health Block Grnt	-	-	1,135,765	1,135,765	-	-	1,135,765	1,135,765	-	-	1,135,765	1,135,765	17.3%
Food/Consumer Safety	-	463,007	-	463,007	-	513,007	-	513,007	-	513,007	-	513,007	7.8%
Baby Your Baby	-	68,974	68,974	137,948	-	68,974	68,974	137,948	-	68,974	68,974	137,948	2.1%
Healthy Child Grant	-	-	53,485	53,485	-	-	53,485	53,485	-	-	53,485	53,485	0.8%
TOTAL GRANTS	471,942	531,981	5,523,302	6,527,225	443,625	581,981	5,551,619	6,577,225	443,625	581,981	5,551,619	6,577,225	1
Percent of Total Grants Budget	7.2%	8.2%	84.6%	100.0%	6.7%	8.8%	84.4%	100.0%	6.7%	8.8%	84.4%	100.0%	
Percent of Total Division Budget	1.0%	4.6%	3.1%	2.7%	0.8%	3.9%	2.5%	2.2%	0.7%	3.5%	2.3%	2.1%	
BENEFITS													
Medicaid Services													
Primary Care Non-Hospital	$ 20,950,259	$ 9,340,584	$ 77,459,416	$ 107,750,258	$ 23,251,979	$ 12,215,779	$ 91,371,422	$ 126,839,179	$ 23,467,486	$ 13,462,780	$ 95,428,675	$ 132,358,940	46.7%
Primary Care Hospital	16,901,535	-	43,876,957	60,778,492	21,388,390	197,808	60,369,290	81,955,488	23,511,862	596,000	68,117,167	92,225,029	32.6%
Medicare Buy-In	2,408,814	-	6,214,237	8,623,051	2,485,019	-	6,678,032	9,163,051	2,536,943	-	6,866,108	9,403,051	3.3%
Indian Health Services	-	-	20,538,915	20,538,915	-	-	21,538,915	21,538,915	-	-	21,588,915	21,588,915	7.6%
CHIP*	595,611	121,295	2,781,402	3,498,308	2,340,188	-	9,918,526	12,258,714	3,020,644	-	12,679,174	15,699,818	5.5%
Women, Infants and Children	-	-	8,507,783	8,507,783	-	-	11,807,783	11,807,783	-	-	11,807,783	11,807,783	4.2%
Health Srvcs - Low-Income Children	98,536	-	-	98,536	98,536	-	-	98,536	98,536	-	-	98,536	0.0%
Cardiovascular Benefits	-	-	-	-	-	-	31,609	31,609	-	-	31,609	31,609	0.0%
Children's Special Health Srvs	-	-	-	-	-	-	14,510	14,510	-	-	14,510	14,510	0.0%
Tuberculosis Prevention	-	-	5,979	5,979	-	-	5,979	5,979	-	-	5,979	5,979	0.0%
Adjustments	-	-	984	984	-	-	984	984	-	-	984	984	0
TOTAL BENEFITS	$ 40,954,754	$ 9,461,879	$ 159,385,673	$ 209,802,306	$ 49,564,112	$ 12,413,587	$ 201,737,049	$ 263,714,748	$ 52,635,470	$ 14,058,780	$ 216,540,904	$ 283,235,154	100.0%
Percent of Benefits Budget	19.5%	4.5%	76.0%	100.0%	18.8%	4.7%	76.5%	100.0%	18.6%	5.0%	76.5%	100.0%	
Percent of Total Division Budget	84.2%	81.8%	89.4%	88.0%	86.0%	83.8%	89.5%	88.5%	86.6%	85.4%	89.7%	88.8%	

Adjustments included six small amounts, each under $600, recorded in the base budgets for various functions unrelated to major categories listed in the table.

Grants

The 2003 biennium budget request for all grants remains at the fiscal 2000 base budget level except grants to counties for inspection of public establishments from funds passed through by the Food and Consumer Safety Bureau. Those grants increase $50,000 annually from the base budget. Nutrition services and counseling to low-income mothers are about half of the grant request in the division ($3.2 million WIC funds). Family planning grants to local governments are about 17 percent of the total grant budget as are grants for primary and preventive health services for children funded from the Maternal Child Health Block Grant. MIAMI grants to local entities fund services to prevent low birth-weight babies and improve pregnancy outcomes, and are the only grants funded from general fund. Baby Your Baby grants fund services to educate persons about infant and children's health issues. The Healthy Child Grant funds public health nursing services to Head Start and day care programs for education to families and staff, such as first aide and sanitation training.

Benefits

The benefits budget request is the most significant division expenditure accounting for 90 percent of the total 2003 biennium request. Medicaid funded services are the largest component of benefit expenditures.

The largest Medicaid benefit administered by this division - primary care non-hospital services - accounts for 47 percent of the total fiscal 2003 division budget request. Non-hospital services include services such as physicians, dental, and prescription drugs. The 2003 biennium appropriation is about $43.7 million higher than the fiscal 2000 base budget, while the general fund share rises less than $5 million because of the increase in the federal match rate.

Primary care hospital services are 33 percent of the fiscal 2003 budget request and increase $53 million total funds, including $11 million general fund over the biennium. The primary care hospital budget is overstated because caseload increases for non-hospital services are included in the hospital request in the Executive Budget.

The Medicare buy-in pays for Medicare Part B premiums for Medicaid-eligible persons who are 65 years of age or older. Medicare (federal funds) then pays for 80 percent of the medical expenses, leaving a liability of only 20 percent for Medicaid, which is partially funded with general fund. The 2003 biennial budget increase is driven largely by the cost of Medicaid premium increases that are established by federal regulations.

Indian health benefits, funded entirely from federal funds, reimburse the Indian Health Service for medical services provided to Medicaid-eligible persons on the Flathead, Blackfeet, Rocky Boy, Fort Belknap, Crow, Northern Cheyenne, and Fort Peck Indian reservations.

CHIP provides health care services for children in families with incomes up to 150 percent of the poverty level ($25,575 for a family of 4 in 2000). CHIP does not pay for health services for adults. DPHHS contracts with insurance companies for coverage that is similar to benefits provided by the state employee health plan. Unlike Medicaid, CHIP is not an entitlement program and services are limited to the available appropriation. Initially, DPHHS estimated that the 2001 biennium appropriation was adequate to fund services for 10,184 children. However, due to premium increases related to a variety of factors, the number of children that could be covered declined to 9,275. 2003 biennium increases for CHIP are due to annualization of start-up costs during fiscal 2001 and an expansion of eligibility in fiscal 2003.

WIC benefits reflect the amount of food vouchers received by low-income women and children. WIC benefits are about 4 percent of the fiscal 2003 budget request.

Health services for low-income children provides up to $100,000 general fund annually for health care services for children in families with incomes up to 185 percent of the federal poverty level. Language in HB 2 directed DPHHS to contract with public or private entities for the administration and provision of primary and preventive health care benefits to children who are uninsured and not eligible for Medicaid benefits. The appropriation for health care services for low-income children may be allocated only to programs with an established statewide network of medical providers who have agreed to accept reimbursement at a rate lower than would normally be charged for their services. HB2 language also specified that the appropriation could not be used to pay the state share of CHIP costs. This appropriation supports the cost of health care services for children in families with incomes in excess of CHIP eligibility limits.

A new federal grant for cardiovascular disease adds about $32,000 in federal funds annually and a small amount is spent on benefits from the tuberculosis grant. Children's Health Services identifies children from birth to age 18, with special health needs and provides for medical evaluation, treatment, and management of certain specified handicapping conditions. Total expenditures for these services exceed $500,000 per year, but are recorded as operating expenses in the fiscal 2000 base budget.

Appropriation Compared to Expenditures
Table 07-04 shows the appropriation for grants and benefits for the Health Policy and Services Division compared to actual expenditures in fiscal 2000. While total expenditures for grants and benefits remained within the amounts appropriated, there are shifts among benefits and grant expenditures because expenditures were recorded differently in the accounting system than the legislative appropriation.

Table 07-04
Fiscal 2000 Grant and Benefit Appropriations Compared to Actual Expenditures
Health Policy and Services Division

	Legislative Appropriation				Expenditures			
Grant/Benefit	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total
GRANTS								
Tobacco Control	$ 1,740,424	$ -	$ 430,000	$ 2,170,424	$ -	$ -	$ -	$ -
Women, Infants and Children	-	-	4,009,373	4,009,373	-	-	3,188,175	3,188,175
Family Planning	-	-	1,043,259	1,043,259	-	-	1,076,903	1,076,903
MIAMI	538,548	-	-	538,548	471,942	-	-	471,942
Children's Special Health Srvs	-	-	543,826	543,826	-	-	-	-
Maternal/Child Health Block Grnt	-	-	804,982	804,982	-	-	1,135,765	1,135,765
Preventive Health Block Grant					-	463,007	-	463,007
Food/Consumer Safety	-	419,310	-	419,310	-	68,974	68,974	137,948
Baby Your Baby	-	-	-	-	-	-	53,485	53,485
Sexual Assault	-	-	7,509	7,509	-	-	-	-
TOTAL GRANTS	2,278,972	419,310	6,838,949	9,537,231	471,942	531,981	5,470,334	6,527,225
BENEFITS								
Medicaid Services								
Primary Care Non-Hospital	18,103,919	8,275,945	71,750,119	98,129,983	20,950,259	9,340,584	77,459,416	107,750,258
Primary Care Hospital	17,511,356	-	45,388,631	62,899,987	16,901,535	-	43,876,957	60,778,492
Medicare Buy-In	2,706,266	-	7,014,519	9,720,785	2,408,814	-	6,214,237	8,623,051
Indian Health Services	-	-	19,341,418	19,341,418	-	-	20,538,915	20,538,915
CHIP*	4,000,000	-	10,633,717	10,633,717	595,611	121,295	2,781,402	3,498,308
Women, Infants and Children	-	-	7,822,679	7,822,679	-	-	8,507,783	8,507,783
Health Srvcs - Low-Income Children	100,000	-	-	100,000	98,536	-	-	98,536
Children's Special Health Srvs	-	-	-	-	-	-	14,510	-
Tuberculosis Prevention	-	-	-	-	-	-	5,979	5,979
Adjustments**	-	-	-	-	-	-	984	984
TOTAL BENEFITS	42,421,541	8,275,945	161,951,083	208,648,569	40,954,754	9,461,879	159,385,673	209,802,306

*The general fund appropriation for CHIP was included in SB 81.
**Adjustments included six small amounts, each under $600, recorded in the base budgets for various functions unrelated to major categories listed in the table.

Grants
Total grant appropriations were $2.3 million general fund in fiscal 2000 compared to expenditures of under $0.5 million. The most significant difference is in the general fund appropriated for tobacco control grants. The legislature appropriated $3.5 million general fund from the state's share of tobacco settlement proceeds each year of the 2001 biennium, with $1.7 million of that amount appropriated for grants to local communities for tobacco control and prevention. DPHHS recorded expenditures for such grants as operating costs rather than grant expenditures. The division followed a similar procedure for increased federal grant funds appropriated for tobacco control.

The same accounting change happened in grants appropriated for Children's Special Health Needs, except a small amount of the expenditure was recorded in benefits while the majority of services costs were recorded as operating expenditures.

LFD ISSUE

The division accounted for almost $3 million in expenditures as operating costs when the original appropriation was for grant expenditures. The purpose of the expenditure was not changed in that expenditures provided public benefits or specific benefits to individuals. However, the expenditures within the accounting system indicate the expenditures were for operating costs of the division.

Other divisions within the department and other programs within the division generally record expenditures for contracts with public or local entities to perform activities that benefit the public or individuals as grant expenditures. The legislature could add language to HB 2 if it desires that expenditures be accounted for consistent with legislative intent in establishing appropriations and in a consistent manner throughout the department to facilitate public understanding of how funds are expended.

All grants and benefits expended by DPHHS are made through a contract with providers and some are competitively procured. The existence of a contract and competitive procurement process do not necessarily imply that costs for a specific public benefit should be expended and budgeted in the grants category. This issue will be summarized as it pertains to expenditures and appropriations for individual functions within the division.

Benefits

Total benefits expenditures in fiscal 2000 were somewhat greater than the legislature appropriated, but the over-all general fund cost was less. However, the general fund appropriation for CHIP was significantly under expended (about $3.4 million). Excess CHIP appropriation authority was used to offset general fund costs above the appropriation for Medicaid primary care non-hospital expenditures.

Funding

The division is funded from general fund, state special revenue, and federal funds. Table 7-05 shows the fiscal 2000 base budget funding compared to the Executive Budget request for the 2003 biennium by specific source.

General fund supports about 20 percent of the division budget in the 2003 biennium. The biggest share of general fund provides matching funds for the Medicaid programs administered by HPSD - about $104 million (88 percent) of the $118.4 million general fund request for the 2003 biennium. Matching costs for CHIP account for $6 million general fund over the biennium. After deducting for Medicaid and CHIP state match, $8.2 million or 7 percent of the division general fund request supports other programs and functions.

State special revenue supports about 5 percent of the HSPD budget request. The two largest sources of state special revenue are the 9-mill levy income from state-assumed counties and Medicaid drug rebate collections. These revenue sources, as well as the tobacco interest income, are also used as state match for Medicaid, bringing the total state match to $131 million over the biennium.

Drug manufacturers that participate in the Medicaid program agree to rebate a percent of drug sales to Medicaid agencies. Previously, DPHHS used the rebate revenue to abate expenditures. Drug rebates were added to the budget in response to a legislative audit finding that the expenses were more appropriately budgeted and paid on the accounting system.

Federal funds support 76 percent of the budget, with Medicaid benefit and administrative matching funds providing $398 million over the biennium or about 85 percent of total federal funding. The second most significant source is the grant for the WIC program with $34 million, followed by federal CHIP grant funds at $25 million.

Table 07-05
Health Policy and Services Funding Summary

Fund Source	Fiscal 2000 Actual	Executive Request 2002	Executive Request 2003	Percent of Total
General Fund	$ 48,619,148	$ 57,619,612	$ 60,777,872	19.1%
Percent of Total	20.4%	19.3%	19.1%	
State Special Revenue				
9 Mil State Assumed County Levy	$ 9,340,584	$ 7,698,000	$ 7,852,000	2.5%
Drug Rebate Collections	-	4,517,779	5,610,780	1.8%
Public Health Laboratory Fees	1,450,447	1,474,181	1,480,672	0.5%
Food/Lodging License	466,468	505,877	507,795	0.2%
Tobacco Interest	-	197,808	596,000	0.2%
Trauma System Fee	-	217,110	217,110	0.1%
Baby Your Baby	68,974	68,974	68,974	0.0%
EMT Certification	21,784	58,134	58,134	0.0%
DHES Food and Consumer	57,365	57,365	57,365	0.0%
CHIP Program	136,151	-	-	0.0%
Health Planning Fees (CON)	-	-	-	0.0%
Indirect Cost Allocation	19,542	20,541	20,711	0.0%
Subtotal State Special Revenue	$ 11,561,315	$ 14,815,769	$ 16,469,541	5.2%
Percent of Total	4.8%	5.0%	5.2%	
Federal Funds				
Medicaid Benefits - Matching	$ 127,966,628	$ 158,823,292	$ 170,824,749	53.6%
Medicaid Benefits - 100% Fed.	20,538,915	21,538,915	21,588,915	6.8%
Women, Infants & Children	12,553,993	16,395,239	17,428,649	5.5%
CHIP Grant	3,122,076	11,220,684	14,258,820	4.5%
Medicaid Administration	2,634,487	3,747,816	3,749,777	1.2%
Maternal & Child Health Block Grt	2,561,573	2,627,031	2,630,028	0.8%
Family Planning Title X	1,113,957	1,101,255	1,099,087	0.3%
Preventive Health Block Grant	1,043,457	1,098,293	1,103,903	0.3%
AIDS Federal Grant	1,009,360	1,048,538	1,050,362	0.3%
Breast/Cervical Cancer Prev.	1,011,767	1,040,094	1,041,249	0.3%
Tobacco Control	818,179	980,606	981,076	0.3%
EMS Data Injury	$93,750	93,750	93,750	0.0%
Tuberculosis Grant	132,893	132,893	132,893	0.0%
Abstinence Education	277,203	277,203	277,203	0.1%
Chronic Disease	80,229	93,968	94,280	0.0%
Diabetes Control	384,480	384,495	385,971	0.1%
Primary Care Services	125,185	123,930	124,290	0.0%
Ryan White Act, Title II	447,057	447,057	447,057	0.1%
EMS - Highway Traffic Safety	25,876	108,876	108,876	0.0%
Montana Lead Poison - Prev.	163,759	163,759	163,759	0.1%
Nutrition Evaluation	0	0	0	0.0%
Food Inspection Program	12,560	33,591	35,293	0.0%
Healthy Child	93,021	98,580	98,854	0.0%
C.D. Epidemiologist	0	0	0	0.0%
Data Integration	349,311	311,874	312,108	0.1%
Trauma System Development	151,636	151,636	151,636	0.0%
E. Coli Lab and Epidemiology	86,239	160,677	160,677	0.1%
Fetal/Infant/Child Mortality Review	136,659	286,659	286,659	0.1%
Search Grant	69,527	69,527	69,527	0.0%
Birth Defects Surveillance	0	60,455	0	0.0%
Cardiovascular Disease	0	260,902	237,768	0.1%
Seroprevalence/Surveillance	55,964	55,964	55,964	0.0%
Vaccination Program	626,280	623,446	626,936	0.2%
Sexually Transmitted Disease	246,848	254,219	255,437	0.1%
Bioterrorism	0	454,346	454,346	0.1%
Fetal Alcohol Syndrom	0	600,000	600,000	0.2%
Bunker Hill Project	0	200,000	200,000	0.1%
Cost Allocation	385,944	405,207	407,519	0.1%
Subtotal Federal Funds	178,318,813	225,474,777	241,537,418	75.8%
Percent of Total	74.8%	75.7%	75.8%	
Total Funds	$ 238,499,276	$ 297,910,158	$ 318,784,831	100.0%
Annual Rate of Change		11.76%	7.01%	

Table 7-06
Maternal and Child Health and Preventive Health Block Grants
Fiscal 2000 Legislative Appropriation Compared to Actual Expenditures
and 2003 Biennium Budget Request

Block Grant/Allocation	Appropriation Fiscal 2000	Actual Fiscal 2000	Executive Budget Request Fiscal 2002	Executive Budget Request Fiscal 2003	Percent of Total
Maternal and Child Health Block Grant					
Cost Allocated Administration*	Unknown	$ 107,874	$ 107,874	$ 107,874	3.9%
Family/Community Health Bur.**	1,383,233	1,375,852	1,416,553	1,416,854	51.7%
Children's Special Health Serv.	899,802	842,307	862,670	864,326	31.6%
MIAMI/Perinatal**	284,662	268,518	272,912	273,952	10.0%
Family Planning	28,164	74,896	74,896	74,896	2.7%
Health Systems Bureau Admin.	6,525	-	-	-	0.0%
Health Planning	18,764	-	-	-	0.0%
IDEA Data Integration	17,760	-	-	-	0.0%
Total Maternal & Child Block Grant	$ 2,638,910	$ 2,669,447	$ 2,734,905	$ 2,737,902	100.0%
Expected Maternal Child Health Grant Amount			$ 2,567,703	$ 2,567,703	
Gant Amount Over (Under) Allocations			$ (167,202)	$ (170,199)	
Preventive Health Block Grant					
Cost Allocated Administration*	Unknown	$ 62,648	$ 62,648	$ 62,648	5.4%
Health Systems Bureau	300,680	316,405	334,519	336,490	28.8%
Emergency Medical Servs.	243,580	204,368	224,329	227,609	19.5%
Sexual Assault/Rape Prevent.	116,022	190,984	194,579	194,635	16.7%
Family Planning	190,169	171,000	171,000	171,000	14.7%
Chronic Disease	92,006	76,882	90,048	90,351	7.7%
Tuberculosis	27,064	31,767	31,767	31,767	2.7%
Public Health Lab	-	29,500	29,500	29,500	2.5%
Immunization	-	24,505	24,505	24,505	2.1%
Communicable Disease Control	82,517	-	-	-	0.0%
Health Planning	18,764	-	-	-	0.0%
AIDS Prevention Grant	15,413	-	-	-	0.0%
Family/Community Health Bur.	12,052	-	-	-	0.0%
FOSB Data Integration	4,661	-	-	-	0.0%
Adjustments	-	(1,954)	(1,954)	(1,954)	-0.2%
Total Preventive Health Block Grant	$ 1,102,928	$ 1,106,105	$ 1,160,941	$ 1,166,551	100.0%
Expected Preventive Health Grant Amount			$ 1,040,245	$ 1,040,245	
Gant Amount Over (Under) Allocations			$ (120,696)	$ (126,306)	

*Administrative costs include administrative functions throughout the department that are cost allocated. DPHHS staff indicate that divisions supported by costs from these block grants include: Health Policy and Services; Operations and Technology; Directors Office; and Quality Assurance. The budget request is assumed to be no less than the base budget expenditures.
**These costs represent contracts with counties for services.

Allocation of Maternal Child Health and Preventive Health Block Grants

The division administers the Maternal and Child Health Block Grant and the Preventive Health Block Grant. Table 7-06 shows the fiscal 2000 appropriation, fiscal 2000 actual expenditures, and the 2003 biennium budget request.

Maternal Child Health Block Grant

Montana receives a $2.7 million Maternal Child Health (MCH) Block Grant annually. Federal regulations specify that: 1) not more than 10 percent of the MCH Block Grant may be used for administering the program; 2) at least 30 percent of the MCH Block Grant must be used for preventive and primary services for children; and 3) at least 30 percent must be used for children with special needs. The state must conduct a comprehensive statewide assessment of MCH needs every five years. The MCH Block Grant requires that MCH funds must be matched with $3 dollars of state or local funds for every $4 of block grant funds. Entities that receive allocations from the MCH Block Grant provide the required match. The state must maintain the level of state funding provided for MCH programs in fiscal 1989 - $485,480.

The allocation of the MCH Block Grant was consistent with the legislative appropriation with two exceptions: 1) the amount allocated to family planning was about $36,000 greater than anticipated; and 2) several functions anticipated to receive about $40,000 in block grant allocations did not. The amount of MCH Block Grant used to support allocated administrative costs was not available during the 1999 session. However, fiscal 2000 costs are included in Table 07-06. About 4 percent of the MCH Block Grant was used for cost-allocated administrative functions in the base budget and the amount is assumed to remain constant through out the 2003 biennium.

LFD COMMENT

The division expects to receive $2.568 million in MCH Block Grant funds each year of the 2003 biennium, about $150,000 less each year than the amount allocated in Table 07-06. The legislature may wish to ask the division how it will change allocations listed in Table 07-06 since the grant will be lower than the amounts included in the Executive Budget.

Preventive Health Block Grant

Montana received $1,040,245 for the Preventive Health Block Grant in federal fiscal year 2000. The amount shown in Table 07-06 is based on expenditures for state fiscal year 2000, which includes portions of two federal fiscal years. No more than 10 percent of the block grant can be spent for administration that is cost allocated (estimated at 5.4 percent in the 2003 biennium). Some of the funds must be used for sexual assault and rape prevention programs. Funds can be used to provide seed money for priority health programs that can be funded from other sources later, and state-identified health problems and public health infrastructure for which there is no other funding source. An advisory committee makes recommendations on the allocation of the Preventive Health Block Grant using criteria to rank the size and seriousness of a health problem, the effectiveness of intervention, and the availability of funding from other sources.

LFD COMMENT

The annual amount budgeted for the Preventive Health Block Grant in the 2003 biennium is in excess of the annual grant amount expected by DPHHS ($1,040,245). The legislature may wish to request that DPHHS indicate how the amounts in Table 07-06 would change to accommodate a lower level of Preventive Health Block Grant.

Present Law Adjustments

	Fiscal 2002					Fiscal 2003				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					214,149					255,743
Vacancy Savings					(177,514)					(178,764)
Inflation/Deflation					5,234					15,294
Fixed Costs					73,013					80,198
Total Statewide Present Law Adjustments					**$114,882**					**$172,471**
DP 15 - Indian Health Services Caseload Adj	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,050,000	1,050,000
DP 16 - Tobacco Prevention Grant Increase	1.00	0	0	159,586	159,586	1.00	0	0	159,754	159,754
DP 17 - Epi and Lab Capacity Grant	0.00	0	0	74,438	74,438	0.00	0	0	74,438	74,438
DP 18 - EMT Certification	0.00	0	36,350	0	36,350	0.00	0	36,350	0	36,350
DP 19 - Local Board Inspection Fund	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 20 - Montana Birth Outcomes Monitoring S	0.00	0	0	60,455	60,455	0.00	0	0	0	0
DP 21 - Fetal Infant Child Mortality Review	0.00	0	0	150,000	150,000	0.00	0	0	150,000	150,000
DP 42 - Medicare Buy-In Caseload Adjustment	0.00	146,448	0	393,552	540,000	0.00	210,444	0	569,556	780,000
DP 43 - Medicaid Caseload Adjustment	0.00	3,995,859	0	15,393,076	19,388,935	0.00	6,221,977	0	22,328,860	28,550,837
DP 44 - CHIP Annualization	6.00	1,899,906	0	8,052,458	9,952,364	6.00	1,914,835	0	8,037,529	9,952,364
DP 85 - Public Health Training Institute	0.00	79,500	0	0	79,500	0.00	79,500	0	0	79,500
DP 88 - Increase DRAMS Contract	0.00	25,000	0	75,000	100,000	0.00	25,000	0	75,000	100,000
DP 89 - Medicaid Drug Rebates as Revenue	0.00	0	4,517,779	12,140,699	16,658,478	0.00	0	5,610,780	15,185,292	20,796,072
DP 106 - WIC Infant Formula Rebates	0.00	0	0	3,300,000	3,300,000	0.00	0	0	3,300,000	3,300,000
DP 701 - Transfer of Tobacco funds to OPI	0.00	(158,477)	0	0	(158,477)	0.00	(158,477)	0	0	(158,477)
Total Other Present Law Adjustments	**7.00**	**$5,988,236**	**$4,604,129**	**$40,799,264**	**$51,391,629**	**7.00**	**$8,293,279**	**$5,697,130**	**$50,930,429**	**$64,920,838**
Grand Total All Present Law Adjustments					**$51,506,511**					**$65,093,309**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

Present law adjustments add 7.0 FTE: 6 in the CHIP program; and 1 in the tobacco control program. Present law adjustments add $117 million over the biennium, with all but $1 million due to caseload adjustments and accounting changes.

New Proposals

		Fiscal 2002					Fiscal 2003			
Prgm	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 87 - Compliance Investigator FTE increa										
07	0.85	18,148	0	21,031	39,179	0.85	16,576	0	22,733	39,309
DP 90 - Claims Adjudication Specialists										
07	2.00	(11,413)	0	(96,158)	(107,571)	2.00	(37,784)	0	(173,583)	(211,367)
DP 102 - Highway Traffic Safety Grant										
07	0.00	0	0	83,000	83,000	0.00	0	0	83,000	83,000
DP 103 - Fetal Alcohol Syndrome										
07	0.00	0	0	600,000	600,000	0.00	0	0	600,000	600,000
DP 104 - Health Educator - Women's Health Se										
07	1.00	0	0	54,551	54,551	1.00	0	0	50,719	50,719
DP 107 - MCH Data Analyst Position										
07	1.00	0	0	38,758	38,758	1.00	0	0	36,872	36,872
DP 108 - Bunker Hill Federal Grant										
07	0.00	0	0	200,000	200,000	0.00	0	0	200,000	200,000
DP 109 - Upgrade/Replace WIC Eligi & Ben Sys										
07	0.00	0	0	500,000	500,000	0.00	0	0	1,530,000	1,530,000
DP 110 - Public Health Laboratory										
07	2.00	0	66,926	0	66,926	2.00	0	67,143	0	67,143
DP 111 - Bioterrorism preparedness										
07	1.00	0	0	454,346	454,346	1.00	0	0	454,346	454,346
DP 124 - Ambulance Provider Rate Increase										
07	0.00	97,090	0	260,910	358,000	0.00	99,826	0	270,174	370,000
DP 125 - Dental Provider Rate Increase										
07	0.00	290,435	0	780,491	1,070,926	0.00	382,994	0	1,036,552	1,419,546
DP 126 - Provider Rate Increase - RBRVS/PASS										
07	0.00	271,611	0	729,906	1,001,517	0.00	545,823	0	1,477,241	2,023,064
DP 127 - Hospital Provider Rate Increase										
07	0.00	121,541	197,808	858,190	1,177,539	0.00	51,155	596,000	1,751,491	2,398,646
DP 144 - Elimination of Medicaid Asset Test										
07	0.00	416,965	0	373,557	790,522	0.00	414,812	0	375,709	790,521
DP 145 - CHIP Eligibility Increase										
07	0.00	0	0	0	0	0.00	728,418	0	3,057,538	3,785,956
DP 150 - Public Health Preparedness										
07	0.00	75,000	0	0	75,000	0.00	75,000	0	0	75,000
DP 200 - Certificate of Need Operations										
07	0.00	23,666	0	0	23,666	0.00	24,613	0	0	24,613
DP 700 - Federal Funds for Medicaid Outreach										
07	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
DP 702 - Cardiovascular Health Program - CDC Gran										
07	1.50	0	0	260,902	260,902	1.50	0	0	237,768	237,768
DP 703 - Trauma System Implementation										
07	1.00	0	217,110	0	217,110	1.00	0	217,110	0	217,110
Total	**10.35**	**$1,303,043**	**$481,844**	**$6,119,484**	**$7,904,371**	**10.35**	**$2,301,433**	**$880,253**	**$12,010,560**	**$15,192,246**

New Proposals

New proposals increase the 2003 biennium budget by 10.35 FTE and $23 million total funds, including $3.6 general fund. 4.5 FTE are added to support categorical federal grants, 3.85 FTE are added to support functions funded by fees and state special revenue, and 2.0 FTE are added to promote cost savings in outpatient Medicaid services. Most of the budget increases are related to new or increased amounts of categorical federal grants.

Sub-Program Details

Division Administration 01

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	8.21	0.00	0.00	8.21	0.00	0.00	8.21	8.21
Personal Services	509,875	(11,630)	0	498,245	(7,803)	0	502,072	1,000,317
Operating Expenses	460,467	4,819	200,000	665,286	6,253	200,000	666,720	1,332,006
Equipment	15,792	0	0	15,792	0	0	15,792	31,584
Capital Outlay	0	0	0	0	0	0	0	0
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	**$986,134**	**($6,811)**	**$200,000**	**$1,179,323**	**($1,550)**	**$200,000**	**$1,184,584**	**$2,363,907**
General Fund	231,337	10,364	0	241,701	12,909	0	244,246	485,947
State/Other Special	19,542	999	0	20,541	1,169	0	20,711	41,252
Federal Special	735,255	(18,174)	200,000	917,081	(15,628)	200,000	919,627	1,836,708
Total Funds	**$986,134**	**($6,811)**	**$200,000**	**$1,179,323**	**($1,550)**	**$200,000**	**$1,184,584**	**$2,363,907**

Division administration includes staff and resources that provide overall direction, leadership, fiscal, and policy services for all programs administered by the division. The $0.4 million annual increase is due to new proposal to provide free screening to Montana residents exposed to lead when they lived in Idaho (see new proposal 108 Bunker Hill Grant). The cost of division administration is allocated among all division programs.

Present Law Adjustments	Fiscal 2002					Fiscal 2003				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					2,880					6,826
Vacancy Savings					(14,510)					(14,629)
Inflation/Deflation					147					1,010
Fixed Costs					4,672					5,243
Total Statewide Present Law Adjustments					**($6,811)**					**($1,550)**
Total Other Present Law Adjustments	**0.00**	**$0**	**$0**	**$0**	**$0**	**0.00**	**$0**	**$0**	**$0**	**$0**
Grand Total All Present Law Adjustments					**($6,811)**					**($1,550)**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

The only present law adjustments for the division administration function are statewide present law adjustments. Vacancy savings offset other increases, resulting in a negative adjustment of about $8,300 over the biennium.

New Proposals	Fiscal 2002					Fiscal 2003				
Sub Prgm	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 108 - Bunker Hill Federal Grant										
01	0.00	0	0	200,000	200,000	0.00	0	0	200,000	200,000
Total	**0.00**	**$0**	**$0**	**$200,000**	**$200,000**	**0.00**	**$0**	**$0**	**$200,000**	**$200,000**

New Proposals

DP 108 - Bunker Hill Federal Grant - The Executive Budget includes $400,000 federal funds from a grant to conduct medical screening of Montana residents exposed to high levels of lead at the Bunker Hill lead smelter in Kellogg, Idaho. In 1973 the smelter burned, releasing high levels of lead into the surrounding environment. It is estimated that as many as 10 percent of the 8,500 residents of the Silver Valley between 1973 to 1981 have moved to Montana.

DPHHS plans to establish a Montana office with a toll-free line and fund media messages to identify and locate individuals currently residing in Montana that are part of the at-risk Silver Valley population. Eligible persons would be provided a free preliminary screen for hypertension and renal disease, two potential diseases related to lead exposure. If a medical problem is identified, eligible persons will be offered additional free medical screening by a health care provider of their choice. This screening, when necessary, will include a diagnostic evaluation by a sub-specialist. The program cannot pay for medical therapy that may be required.

LFD ISSUE

The expenditures from this new proposal will provide direct services and benefits to individuals, yet the expenditures are recorded as an operating expense for state government. The Executive Budget overstates government operating costs and understates appropriations for grants and services to individuals. If the legislature approves the executive request, it may wish to appropriate the funds in the grant or benefits category of expenditure to reflect that the expenditures will benefit individuals rather than support government operating costs.

Sub-Program Details

Medicaid 02

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	25.12	0.00	2.00	27.12	0.00	2.00	27.12	27.12
Personal Services	1,096,844	8,133	61,429	1,166,406	13,982	61,633	1,172,459	2,338,865
Operating Expenses	3,239,498	107,084	1,011,000	4,357,582	108,668	1,007,000	4,355,166	8,712,748
Equipment	158,260	0	0	158,260	0	0	158,260	316,520
Grants	137,948	0	0	137,948	0	0	137,948	275,896
Benefits & Claims	197,690,616	37,587,413	4,218,504	239,496,533	51,176,909	6,721,777	255,589,302	495,085,835
Total Costs	**$202,323,166**	**$37,702,630**	**$5,290,933**	**$245,316,729**	**$51,299,559**	**$7,790,410**	**$261,413,135**	**$506,729,864**
General Fund	41,773,578	5,764,338	1,186,229	48,724,145	7,891,536	1,456,826	51,121,940	99,846,085
State/Other Special	9,409,558	2,875,195	197,808	12,482,561	4,122,196	596,000	14,127,754	26,610,315
Federal Special	151,140,030	29,063,097	3,906,896	184,110,023	39,285,827	5,737,584	196,163,441	380,273,464
Total Funds	**$202,323,166**	**$37,702,630**	**$5,290,933**	**$245,316,729**	**$51,299,559**	**$7,790,410**	**$261,413,135**	**$506,729,864**

Present Law Adjustments

	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					39,557					45,587
Vacancy Savings					(31,424)					(31,605)
Inflation/Deflation					(2,166)					(1,505)
Fixed Costs					9,250					10,173
Total Statewide Present Law Adjustments					**$15,217**					**$22,650**
DP 15 - Indian Health Services Caseload Adjustment	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,050,000	1,050,000
DP 42 - Medicare Buy-In Caseload Adjustment	0.00	146,448	0	393,552	540,000	0.00	210,444	0	569,556	780,000
DP 43 - Medicaid Caseload Adjustment	0.00	3,995,859	0	15,393,076	19,388,935	0.00	6,221,977	0	22,328,860	28,550,837
DP 88 - Increase DRAMS Contract	0.00	25,000	0	75,000	100,000	0.00	25,000	0	75,000	100,000
DP 89 - Medicaid Drug Rebates as Revenue	0.00	0	4,517,779	12,140,699	16,658,478	0.00	0	5,610,780	15,185,292	20,796,072
Total Other Present Law Adjustments	**0.00**	**$4,167,307**	**$4,517,779**	**$29,002,327**	**$37,687,413**	**0.00**	**$6,457,421**	**$5,610,780**	**$39,208,708**	**$51,276,909**
Grand Total All Present Law Adjustments					**$37,702,630**					**$51,299,559**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

The Medicaid Services and CHIP Bureau administers a wide range of medical programs. (The changes for CHIP services are included in a separate sub-program.) The bureau operates 30 different Medicaid medical programs with more than 6,000 providers. Passport, a primary care case management program (gatekeeper model) that began in 1993 and includes approximately 70 percent of all Medicaid recipients is the managed care program for Medicaid. The Medicaid HMO program was discontinued in July 2000 and recipients who were previously served under this program are now served by Passport.

The Bureau manages other Medicaid services including physicians; mid-level practitioners; podiatrists; laboratory; imaging; family planning; public health clinics; pharmacy; home infusion therapy; durable medical equipment; transportation; ambulance; audiology; hearing aids; vision services; eyeglasses; chiropractors; nutritionists; dental; private duty nursing; school-based services; Qualified Medicare Beneficiary (QMB); and presumptive eligibility for pregnant women; and respiratory, physical, occupational, and speech therapy.

With the exception of the Indian Health Services program, the state must provide a match for Medicaid services. Administrative costs are funded 50 percent state match, with some functions at an enhanced rate of 10 to 25 percent. The state match for services costs declines from 27.85 percent in fiscal 2000 to 27.12 percent in fiscal 2002 and 26.98 percent in fiscal 2003.

The Medicaid services budget increases $100 million over the 2003 biennium, largely due to caseload growth and inflation in the cost of services such as pharmacy. The division budget overview includes a table and narrative explaining individual Medicaid services and showing actual and budgeted costs. The table shows Medicaid services and individual benefits in relationship to the total division budget request. Medicaid services account for 80 percent of the division budget request in fiscal 2003

LFD COMMENT Historically, Medicaid service cost estimates in the Executive Budget have been based on the most recent Medicaid paid claims data and estimates have been updated during appropriation subcommittee hearings in February of the session year. The Medicaid estimates used in the Executive Budget are based on July Medicaid paid claims data. Updates may materially affect the present level costs of maintaining Medicaid funded services during the 2003 biennium.

DP 15 - Indian Health Services Caseload - The Executive Budget includes a $2 million increase in federal funds over the biennium for the Indian Health Services program, which pays the Medicaid costs for Medicaid-eligible Native Americans served at Indian Health Services facilities. The increase is based on an estimated 5 percent increase due to the number of eligibles and service utilization. Indian Health Services is funded entirely with federal funds.

DP 42 - Medicare Buy-In Caseload Adjustment - The Medicare Buy-In program allows state Medicaid programs to purchase Medicare coverage through premium payments for Medicaid recipients who are dually eligible for Medicare and Medicaid. Subsequently, Medicare covers the cost of most services for an individual with no further Medicaid liability. Medicaid is liable only for the costs of non-Medicare covered services and for co-insurance and deductibles related to services utilized. This request reflects increases in caseload and premiums for Medicare Part A and Part B. Premium increases are based on projections by the Health Care Financing Administration: monthly premiums for Part B will increase from the 1999 level of $44.67 to $47.46 per month in 2002 and $48.25 per month in 2003. Premiums for Medicare part A will be static over the next several years. Caseload increases assume a 2 percent increase in the number of eligibles for part B, consistent with actual increases over the last several years.

DP 43 - Medicaid Caseload Adjustment - The Executive Budget includes $47.9 million (including $13 million general fund) for caseload, service utilization, and inflation increases in Medicaid funded primary care and hospital programs. The increase represents a compounded an annual increase of about 10.1 percent per year from fiscal 2000 to fiscal 2003. Base budget costs were $168.7 million. The department utilizes a complex set of projections, based on statistical trends relating to monthly eligibility, type of provider, number of services, cost per service, and health care inflation, from several sources in establishing its budget request. Medicaid is an entitlement program, which makes any person meeting eligibility criteria for the program eligible for services.

LFD ISSUE The Executive Budget includes $2 million more in 9-mill levy revenue than the revenue estimates adopted by the Revenue and Taxation Interim Committee. Since the 9-mill income is budgeted as Medicaid match in this division, the Executive Budget is $2 million short in state matching funds to cover the projected increase in Medicaid costs.

DP 88 - Increase DRAMS Contract - This request adds $200,000 total funds, including $50,000 general fund, over the biennium to pay for enhancements and ongoing operation of the Drug Rebate Analysis and Management System (DRAMS) program. DPHHS implemented DRAMS in September 1999, because the former system used to support drug rebates was not year 2000 compliant.

The Omnibus Budget Reconciliation Act of 1990 mandated that federal financial participation for outpatient drugs covered under Medicaid programs was contingent on rebate agreements signed by manufacturers. Montana Medicaid has participated in the drug rebate program since 1991 and has collected over $49 million in rebates.

DP 89 - Medicaid Drug Rebates as Revenue - The Executive Budget includes an increase of $37 million over the biennium to comply with a legislative audit finding. The DPHHS 1999 financial audit determined that abating drug rebate receipts against pharmacy expenditures did not correctly record expenditures and revenues and that use of abatements does not comply with generally accepted accounting principles. The audit recommendation requires the department to account for rebates as revenue and not use rebates to offset expenditures starting in fiscal 2002. This accounting change requires that the costs, which were formerly reduced by drug rebate revenue, will be included in the budget.

LFD ISSUE

There are two issues related to drug rebates: 1) use of state special revenue instead of general fund; and 2) conditions the legislature may wish to establish if it approves state special revenue as the fund type for state match for rebate expenditures.

State Special Revenue or General Fund

The drug rebate appropriation is made from state special revenue and federal funds. Use of a state special revenue appropriation in this instance may not comply with legislative policies governing the use of state special revenue accounts as established in statute (Section 17-1-505(3), MCA). Three of those guidelines that are appropriate to this proposal include: 1) the program or activity provides direct benefits to those who pay the dedicated tax, fee, or assessment; 2) the tax, fee, or assessment is commensurate with the cost of the program or activity; and 3) the dedicated revenue does not impair the legislature's ability to scrutinize budgets, control expenditures, and establish priorities for state spending. The use of a state special revenue account does not appear to meet these legislative policy guidelines for this proposal.

Drug rebate revenue does not provide a direct benefit to those who pay the fee or tax and it is not commensurate with the cost of the program. Depending on how closely the legislature reviews and establishes drug rebate revenue, the state special revenue designation could impair its ability to establish and control expenditures.

If the legislature believes that it is inappropriate to budget the state Medicaid match for rebates from state special revenue it could budget the state match from the general fund. There would be no impact to the general fund balance, assuming drug rebate expenditure estimates were accurate or nearly so. There would be no impact to the general fund balance because rebate revenues would be deposited to the general fund and offset the general fund appropriation.

Use of State Special Revenue

If the legislature approves use of state special revenue for the state match drug rebates, it could consider establishing conditions that would prevent expansion of the Medicaid program if rebate revenues were higher than budgeted. If rebate income exceeds the state special revenue appropriation, DPHHS would be able to transfer state special revenue authority from other programs to augment the appropriation. The legislature could consider allowing DPHHS to increase the state special revenue match by reducing general fund Medicaid matching funds an equivalent amount. This condition could be placed appropriately in HB 2.

New Proposals

	Fiscal 2002					Fiscal 2003				
Sub Prgm	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 90 - Claims Adjudication Specialists										
02	2.00	(11,413)	0	(96,158)	(107,571)	2.00	(37,784)	0	(173,583)	(211,367)
DP 124 - Ambulance Provider Rate Increase										
02	0.00	97,090	0	260,910	358,000	0.00	99,826	0	270,174	370,000
DP 125 - Dental Provider Rate Increase										
02	0.00	290,435	0	780,491	1,070,926	0.00	382,994	0	1,036,552	1,419,546
DP 126 - Provider Rate Increase - RBRVS/PASS										
02	0.00	271,611	0	729,906	1,001,517	0.00	545,823	0	1,477,241	2,023,064
DP 127 - Hospital Provider Rate Increase										
02	0.00	121,541	197,808	858,190	1,177,539	0.00	51,155	596,000	1,751,491	2,398,646
DP 144 - Elimination of Medicaid Asset Test										
02	0.00	416,965	0	373,557	790,522	0.00	414,812	0	375,709	790,521
DP 700 - Federal Funds for Medicaid Outreach										
02	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
Total	**2.00**	**$1,186,229**	**$197,808**	**$3,906,896**	**$5,290,933**	**2.00**	**$1,456,826**	**$596,000**	**$5,737,584**	**$7,790,410**

New Proposals

<u>DP 90 - Claims Adjudication Specialists -</u> This request includes 2.0 FTE and $140,000 in operating costs over the biennium to perform claims adjudication procedures. Anticipated savings in Medicaid services costs provide a net savings of $319,000 total funds and $49,000 general fund over the biennium.

The new positions would perform complex claims adjudication procedures that are currently done by program managers. This change is anticipated to provide program managers with additional time to work on other cost containment measures, such as developing programs that would reduce outpatient hospital procedures that are performed out of state. It is anticipated that a 25 percent reduction in out-of-state outpatient hospital procedures would result within the first full year after implementation.

DP 124 - Ambulance Provider Rate Increase - This request includes $800,000 total funds, including $197,000 general fund to raise ambulance rates by 35 percent in fiscal 2002. The funding would also allow DPHHS to change the Medicaid reimbursement methodology to follow that used by Medicare.

The Medicaid program reimburses ambulance services in aggregate at about 37 percent of usual and customary charges. By comparison, Medicare reimbursement for similar services is about 69 percent of charges for basic life support and 75 percent of charges for advanced life support. The adoption of Medicare reimbursement methodology would standardize Medicare and Medicaid coverage policies.

LFD COMMENT State Medicaid programs must establish rates at a level adequate to ensure access to services for Medicaid recipients. No ambulance providers have refused to participate in the Medicaid program due to reimbursement rates.

DP 125 - Dental Provider Rate Increase - This request adds $2.1 million total funds and $0.7 million general fund over the biennium to raise Medicaid dental/denturist aggregate reimbursement to 72 percent of the usual and customary charges. The current rate of reimbursement for dental/denturist services is 65 percent of usual and customary charges. The request would increase the total dental program cost by nearly 20 percent in fiscal 2002. As part of this request, DPHHS will also work with dentists to rebase the current Medicaid fee schedule to provide reasonable and adequate reimbursement for dental/denturist services to ensure access to care.

As noted previously, under federal Medicaid regulations (42CFR 447.204) Medicaid payment rates must be sufficient to enlist enough providers so that services under the state plan are available to recipients at least to the extent that they are available to the general public. DPHHS believes that low reimbursement rates are the primary reason that Medicaid recipients have problems obtaining access to care.

LFD COMMENT This recommendation was made by the Montana Dental Access Coalition, which was established by the Children, Families, Health and Human Services Interim Committee.

DP 126 - Provider Rate Increase - RBRVS/PASS - This request adds $3 million total funds including $0.8 million general fund for a 2.5 percent reimbursement increase for physicians; nurse practitioners; physician assistants; podiatrists; chiropractors; audiologists; and physical, occupational, and speech therapists paid under the Resource Based Relative Value System (RBRVS) for each year of the biennium. Mental health providers are not included in this request.

Currently, Medicaid rates in aggregate are at 93 percent of Medicare rates, which corresponds to 55 percent of provider charges. A 2.5 percent annual rate increase will raise Medicaid rates to 93.5 percent of Medicare rates in fiscal 2002.

According to a December 1999 survey by the Montana Medical Association (MMA), 18 percent of primary care practitioners restrict or limit the number of Medicaid recipients they will see. The MMA also estimates that Medicaid reimbursement is 36 percent less than that of average private insurers and 43 percent less than Blue Cross Blue Shield rates. Providers have received 1.5 percent or lower annual rate increases since the early 1980's. DPHHS believes that low reimbursement rates are the primary reason some physicians limit the number of Medicaid recipients that they will see.

This proposal also assumes that the RBRVS system will be fully implemented during the 2003 biennium with no transition corridors and that Medicaid would continue to pay 10 percent more for obstetrical and family planning related services.

LFD COMMENT

In the past two biennia, the legislature has added language to HB 2 regarding the transition to full implementation of RVRBS. Language added in the 2001 biennium was:

> "Implementation of the resource-based relative value scale (RBRVS) provider rate system must be phased in over the 2001 biennium. The department shall use funds in item [Medicaid Provider Rate Increase] to raise rates paid to those codes that are paid the lowest percentage of Medicare reimbursement. The department shall freeze reimbursement for all other procedure codes previously decreased under the phase in of the RBRVS reimbursement system at the fiscal year1999 level of reimbursement."

This language "holds harmless" providers whose reimbursement rates would decline under full implementation of RBRVS. Increased funds are then allocated only to raise rates of providers whose reimbursement is lower than would be paid under full implementation of RBRVS. DPHHS is not recommending continuation of this language.

<u>DP 127 - Hospital Provider Rate Increase -</u> This request adds $3.6 million total funds and $0.2 million general fund over the biennium for a 1.85 percent annual provider rate increase for hospital providers participating in Medicaid program. The rate increase is below the rate of inflation for health care providers established by the Health Care Price Index as of December 2000.

LFD COMMENT

The Executive Budget includes $0.8 million in interest from the constitutional tobacco settlement trust fund to fund part of the state share of this proposal. Please see the issue raised in the agency narrative that shows the Executive Budget request compared to the interest income available for appropriation from the trust fund. Legislative staff estimates show that there is $1.5 million of trust fund interest available for appropriation above the level requested by the executive.

<u>DP 144 - Elimination of Medicaid Asset Test -</u> The Executive Budget includes $1.6 million total funds, including $0.8 million general fund, for the biennium to remove the resource/assets test for pregnant women and children in the poverty level Medicaid programs.

Resources are liquid assets such as bank accounts, certificates of deposit and stocks. Non-liquid assets such as property and vehicles are also resources. Generally speaking, an applicant's home and one vehicle are not counted when determining assets. If an applicant has income within financial limits, but assets in excess of the asset limit, he or she will not qualify for Medicaid. Montana's resource limit is $3,000. Forty-one states have eliminated resource tests for Medicaid eligibility for these groups.

Eliminating the resource test makes poverty level program eligibility more compatible with CHIP and MHSP eligibility. This change will move children who are currently covered under the CHIP program (19 percent general fund) and the Mental Health Services Plan (100 percent general fund) to the Medicaid program (27 percent general fund). Additionally, 126 more low-income pregnant women will become eligible for services. DPHHS estimates that the elimination of the resource test would increase the number of Medicaid eligible children and women by 2,346.

LFD ISSUE

The legislature may wish to request some revisions to the executive estimates and review the cost estimate to remove the asset test once the revisions are available. Those revisions are: 1) the total Medicaid cost of providing mental health services to CHIP eligible children receiving expanded mental health services; 2) the total savings due to non-CHIP eligible children receiving state funded mental health services; and 3) the average cost per child.

LFD ISSUE (Continued)

Medicaid Cost of CHIP Eligible Children Receiving Expanded Mental Health Services
The Executive Budget makes some assumptions that appear to be inaccurate in its estimate of the cost to eliminate the asset test. The executive assumes that the total cost of each child who moves from the expanded mental health services will be less when the child becomes Medicaid eligible. That assumption may not be accurate. Since the same medical necessity and utilization review of services are applied to children's mental health services provided through Medicaid funds and through MHSP general fund, it seems that the services provided and therefore the cost of mental health services would not change. The Executive budget estimates that general fund cost savings for this group will be about $50,000. A revision recognizing the same service mix would result in an increase of $100,00 general fund over the biennium. The net effect of this revision would be to add $150,000 general fund to the cost estimate.

Medicaid Cost of Non-CHIP Eligible Children Receiving State Funded Mental Health Services
Additionally, the executive assumes that all children receiving mental health services through MHSP are CHIP eligible. However, there are children receiving state funded mental health services who are not CHIP eligible but could be Medicaid eligible if assets are not considered. The cost of extending Medicaid coverage to those children would be a net general fund reduction of $3,000 per child over the biennium. In order to estimate the total cost savings due to this revision legislative staff requested that DPHHS provide December enrollment data of the number of MHSP eligible children who are not CHIP eligible and whose families have incomes less than 133 percent of the poverty level.

Average Cost Per Child
The executive assumes that the average cost per child is fixed throughout the biennium, yet the cost of state-funded mental health services and Medicaid increase throughout the 2003 biennium, due in part to inflation and provider rate increases. The average costs use to calculate the asset test change do not include these cost changes.

DP 700 - Federal Funds for Medicaid Outreach - The Executive Budget includes $2 million federal funds over the biennium to improve Medicaid enrollment and eligibility determination processes. The enhanced funding is available to assist with the additional expenses attributable to the provisions of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

States must provide a 75 to 90 percent match depending on the type of activity performed. The state match will be funded within existing appropriations.

Sub-Program Details

Health Systems 03

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	33.87	1.00	2.50	37.37	1.00	2.50	37.37	37.37
Personal Services	1,242,438	181,042	103,339	1,526,819	191,566	103,695	1,537,699	3,064,518
Operating Expenses	6,157,736	76,716	449,730	6,684,182	81,272	426,144	6,665,152	13,349,334
Equipment	20,997	0	0	20,997	0	0	20,997	41,994
Grants	53,485	0	0	53,485	0	0	53,485	106,970
Benefits & Claims	567	0	31,609	32,176	0	32,652	33,219	65,395
Total Costs	**$7,475,223**	**$257,758**	**$584,678**	**$8,317,659**	**$272,838**	**$562,491**	**$8,310,552**	**$16,628,211**
General Fund	4,002,134	(38,645)	23,666	3,987,155	(33,166)	24,613	3,993,581	7,980,736
State/Other Special	21,784	36,350	217,110	275,244	36,350	217,110	275,244	550,488
Federal Special	3,451,305	260,053	343,902	4,055,260	269,654	320,768	4,041,727	8,096,987
Total Funds	**$7,475,223**	**$257,758**	**$584,678**	**$8,317,659**	**$272,838**	**$562,491**	**$8,310,552**	**$16,628,211**

The Health Systems Bureau is responsible for establishing state public health policy and implementing state programs that promote the health of all Montanans by controlling and preventing chronic diseases and injuries. The bureau:

- Emphasizes development and maintenance of statewide systems to improve delivery of public health programs, chronic disease prevention, health promotion, injury prevention, primary care, and emergency medical services;
- Manages statewide programs in breast and cervical cancer screening, diabetes control, cardiovascular disease prevention, and tobacco use prevention;
- Exercises responsibility for a statewide emergency medical services and trauma system;
- Licenses ambulances, trains emergency medical technicians/first responders, monitors trauma services with Montana hospitals, and operates the poison control center;
- Administers health planning functions including the Certificate of Need Program, Montana Health Agenda, and the establishment of data sources to assist in health planning and prioritization; and
- Administers the federal Preventive Health Block Grant, which provides funding for state public health programs.

The bureau is funded from general fund, federal funds, and state special revenue. General fund supports tobacco control ($3.3 million per year); emergency medical services ($370,000 per year); health planning ($170,000 per year); and certificate of need ($24,000 per year). State special revenue supports trauma system implementation ($216,000 per year), and emergency medical technician certification and licensing ($58,000 per year). Federal grant funds support the balance of program costs.

The 2003 biennium budget request is $1.7 million greater than base budget expenditures. Federal grant increases for tobacco control and cardiovascular health comprise almost half of the increase and add 3.5 FTE. A new proposal to implement the state trauma system is funded from an increase in motor vehicle registration fees of about 3.5 percent.

LFD ISSUE

The 1999 legislature added the following language to HB 2 related to the Health Systems Bureau:

"Item [Chronic Disease Epidemiologist] includes funds for a chronic disease epidemiologist FTE. If the federal grant funds supporting this position decline or are eliminated, the department shall reduce the FTE from its budget request for the 2003 biennium. Federal grants supporting this position include the behavioral risk surveillance grant, the diabetes control grant, the tobacco control grant, and the tumor registry grant."

"If federal grant funds supporting item [Trauma System Development] decline or are discontinued, the department shall remove funding for the FTE supported by this federal grant in its 2003 biennium budget request."

Epidemiologist
While the bureau did not request funding to continue the chronic disease epidemiologist function, it appears that the FTE was not removed from the budget request. Legislative staff has requested the position number used for the epidemiologist to determine if the FTE was removed in compliance with HB 2 or if the FTE has been included in another part of the budget request. The legislature may wish to determine whether to continue funding for the FTE if it is included in the budget request.

Trauma System
The bureau is requesting a new FTE and funding source to continue trauma system implementation since the federal grant funds were discontinued. It appears that the trauma system FTE was not removed from the base budget. Legislative staff has requested the position number used for the trauma system FTE to determine whether the FTE was removed in compliance with HB 2 language or if the FTE has been included in another function in the budget request. The legislature may wish to determine whether to continue funding for the FTE if it is included in the budget request.

Present Law Adjustments	Fiscal 2002					Fiscal 2003				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					172,872					183,546
Vacancy Savings					(38,881)					(39,199)
Inflation/Deflation					3,267					6,713
Fixed Costs					3,541					4,651
Total Statewide Present Law Adjustments					**$140,799**					**$155,711**
DP 16 - Tobacco Prevention Grant Increase	1.00	0	0	159,586	159,586	1.00	0	0	159,754	159,754
DP 18 - EMT Certification	0.00	0	36,350	0	36,350	0.00	0	36,350	0	36,350
DP 85 - Public Health Training Institute	0.00	79,500	0	0	79,500	0.00	79,500	0	0	79,500
DP 701 - Transfer of Tobacco funds to OPI	0.00	(158,477)	0	0	(158,477)	0.00	(158,477)	0	0	(158,477)
Total Other Present Law Adjustments	**1.00**	**($78,977)**	**$36,350**	**$159,586**	**$116,959**	**1.00**	**($78,977)**	**$36,350**	**$159,754**	**$117,127**
Grand Total All Present Law Adjustments					**$257,758**					**$272,838**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 16 - Tobacco Prevention Grant Increase - This request adds 1.0 FTE and $319,340 in federal authority over the biennium to support community-based programs and to create and implement monitoring and evaluation systems for the tobacco use prevention. The FTE has already been hired and was authorized by operating plan budget changes approved by the Office of Budget and Program Planning. The FTE would become part of the personal services funding level recognized by the legislature in establishing future program budgets if this proposal is approved. Base expenditures for the tobacco control program were $4.3 million total funds, including $3.5 million general fund appropriated from tobacco settlement proceeds.

Direct medical costs related to smoking in Montana are estimated at $153 million annually by the Centers for Disease Control and Prevention. It is estimated to cost the Montana Medicaid program $12 million annually.

LFD ISSUE

The 1999 legislature added the following language to HB 2:

"The department shall use $430,000 of funds each year of the biennium in item [tobacco prevention and control federal funds appropriation] to increase grants to local governments and communities."

Legislative staff requested documentation of the contracts let for tobacco control by function and funding source to determine compliance with HB 2 language. Review of base budget expenditures as recorded in the accounting system did not support use of tobacco control funds in a manner consistent with HB 2 language. All of the tobacco control costs were recorded as operating costs by DPHHS, with the majority recorded as contracted services. None of the expenditures for tobacco control activities were recorded as grant expenditures.

Review of contracts indicates that at least $418,500 of contracts funded from the federal grant for tobacco control were with local communities. Another $140,000 of federal funds supported a contract with Montana State University-Bozeman to work with local schools and children in developing media and public awareness campaigns to discourage youth tobacco use.

LFD ISSUE (Continued)

Preliminary review of contracts indicates that DPHHS did not use $430,000 of the tobacco control federal grant to contract with communities as required by HB 2. The legislature may wish to ask DPHHS for more information and the reasons that more contracts were not let directly with communities as required in HB 2.

LFD ISSUE

Although the new proposal for tobacco control federal grant funds indicates it will be used to increase grants to communities, the Executive Budget includes all increases, other than personal services, in the operating cost category. The Executive Budget overstates operating costs of state government and understates grant expenditures that provide direct and diverse public benefits. If the legislature approves this request, it may wish to appropriate an amount from the increase specifically for grants to communities as it did in the 2001 biennium.

LFD COMMENT

The 1999 legislature appropriated $2.2 million tobacco control funds, including $1.7 million general fund, each year of the 2001 biennium as grants. Accounting for tobacco control expenditures as operating expenses of the division makes is difficult to compare actual expenditures to legislative intent. Furthermore, to the extent that the contracts do not support operation and management functions of the division, operating costs are over-stated and grant expenditures are understated.

Review of contracts indicates that at least $418,500 of expenditures from the federal grant and $1.7 million of the expenditures from the general fund appropriation for tobacco control were contracts with public or local entities to perform activities related to smoking cessation, tobacco use prevention, oral health screenings, and purchase of pharmacological anti smoking aids.

DP 18 - EMT Certification - This request adds $72,700 state special revenue from fees for emergency medical technician certification and licensure. Fees are paid by persons who participate in the certification and licensure activity. The division expects a slight increase in fees and in the number of persons certified and licensed. Fee changes are due to price increases for the examination and certification process purchased from the National Registry of Emergency Medical Technicians and increases in state expenses. Base budget expenditures for this function were about $22,000 state special revenue.

DP 85 - Public Health Training Institute - The Executive Budget includes $160,000 general fund to support the development of the Montana Public Health Training Institute. The appropriation would fund contracted services to: 1) develop the curriculum modules to be used in the public health training institute; 2) manage the instructors needed for the institute; and 3) provide technical assistance in evaluation of the public health training institute. The eventual goal is to provide public health training for the following target audiences: county sanitarians; county health officers; public health nurses; members of local county health boards; and state public health workers. Currently there is no public health curriculum offered for these practitioners in Montana.

This proposal is partially funded by a four-year Robert Wood Johnson Turning Point grant ($125,000 per year). The general fund would cover costs not funded by the grant. DPHHS anticipates that the Institute will eventually charge tuition and fees for training.

LFD COMMENT

The legislature may wish to review the level of ongoing general fund support that the Institute would need once it is implemented and charges for services.

DP 701 - Transfer of Tobacco Funds to OPI - DPHHS entered into an interagency agreement with the Office of Public Instruction to perform a variety of school-related services in support of the Montana Tobacco Use Prevention Program. The agreement stipulates that an amount of funding - $158,477 general fund per year - would be transferred to the Office of Public Instruction. The general fund is allocated from Montana's share of tobacco settlement proceeds.

LFD COMMENT The Office of Public Instruction budget request to implement this contract adds 1.34 FTE.

New Proposals

	Fiscal 2002					Fiscal 2003				
Sub Prgm	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 102 - Highway Traffic Safety Grant										
03	0.00	0	0	83,000	83,000	0.00	0	0	83,000	83,000
DP 200 - Certificate of Need Operations										
03	0.00	23,666	0	0	23,666	0.00	24,613	0	0	24,613
DP 702 - Cardiovascular Health Program - CDC Gran										
03	1.50	0	0	260,902	260,902	1.50	0	0	237,768	237,768
DP 703 - Trauma System Implementation										
03	1.00	0	217,110	0	217,110	1.00	0	217,110	0	217,110
Total	**2.50**	**$23,666**	**$217,110**	**$343,902**	**$584,678**	**2.50**	**$24,613**	**$217,110**	**$320,768**	**$562,491**

New Proposals

DP 102 - Highway Traffic Safety Grant - The Executive Budget includes a request for $166,000 federal funds to improve emergency medical services data collection and analysis and to enhance injury prevention. The funds will be used to continue the prehospital data collection system, to link the trauma register and EMS data base with other health care databases, and to provide funding for EMS agencies and non-profit organizations to promote injury prevention activities including seat belt use, child safety seat use, and bike helmet use.

DP 200 - Certificate of Need Operations - The Executive Budget includes $48,000 general fund for the Certificate of Need program (authorized in Title 50, Section 5, Parts 1 and 3, MCA). Funds were not appropriated for this function by the 1999 legislature. DPHHS funded and recorded about $6,000 to $7,000 in expenditures for certificate of need activity in the Health Planning Administration program. Other activities delayed to fund certificate of need were health planning activities such as County Health Profiles and development and publication of the Montana Health Agenda.

Expenses for the Certificate of Need program include, but are not limited to, legal newspaper advertisements, certified mailings and other postage/mailing expenses, travel to public informational hearings, legal fees incurred during reconsideration hearings, lawsuits and court appeals, and routine office expenses. The appropriation request is based on historic activity of 40 letters of intent, 16 applications, and 1 reconsideration hearing. Activity during the base budget year was 12 letters of intent, 8 applications (4 of which were reviewable), and 1 reconsideration hearing. DPHHS has indicated it will propose a bill to remove the certificate of need requirement from statute if the request is not funded. Program expenditures in fiscal 1998 and 1999 ranged between $38,000 and $39,000.

DP 702 - Cardiovascular Health Program - CDC - This request includes about $500,555 of federal funds for a cardiovascular health program and 1.5 FTE. Grant funds will end September 2003 and will support a total of 3.5 FTE, because 2.0 of the FTE are already funded in the DPHHS base budget using other sources of funds.

The grant will support the following activities:

?? Change duties of the 2.0 existing FTE to support the cardiovascular health function full time;

?? Hire a half-time epidemiologist to develop an integrated surveillance system and provide assistance with survey design and data analysis;

?? Conduct focus groups with priority populations (Native Americans, children and older Montanans) to develop culturally competent intervention strategies;

?? Conduct a comprehensive statewide inventory of policies and environmental factors that influence cardiovascular disease and the health status of Montanans;

?? Conduct and disseminate results of four nutrition- and physical activity-related baseline surveys and the policy and environmental inventory;
?? Revise the cardiovascular disease state plan; and
?? Provide professional education opportunities to health professionals to build cardiovascular disease related skill levels.

LFD ISSUE

If the legislature approves this request it may wish to add language to HB 2 specifying that the FTE funded by this grant may not be continued in the base budget funding or present law budget adjustments if the federal grant supporting the cardiovascular disease program is discontinued.

DP 703 - Trauma System Implementation - The Executive Budget includes 1.0 FTE and $434,220 in state special revenue funds to implement the trauma system. Federal grants funded development of the trauma system during the 2001 biennium. Implementation is funded from state special revenue generated by an increase on vehicle registration.

This proposal would:
?? Continue the position of the state trauma nurse coordinator who manages the state trauma care system;
?? Arrange and provide training programs for emergency medical personnel, physicians, nurses, and other medical personnel in the proper management of the acutely injured trauma patient;
?? Manage the quality improvement process to improve the care of the trauma patient;
?? Purchase and install the Montana Trauma Register program in 5 additional Montana trauma facilities;
?? Provide assistance to the facilities in achieving trauma system designation; and
?? Provide funding for a database technician to enter trauma register data into the state system and prepare reports for use by the state trauma care committee and by the trauma hospitals.

This proposal is funded from an increase in vehicle registration fees. The Executive Budget notes that legislation will be required to increase the registration fee.

LFD ISSUE

This proposal is funded by an increase in vehicle registration fees estimated by the executive to be 25 to 50 cents per vehicle. Since license fees vary depending on the type and weight of vehicle licensed (Section 61-3-321, MCA) the overall increase to support the Executive Budget proposal would amount to 3.5 percent. The increase would require legislation to implement. DPHHS has indicated it will not request the legislation, but will endorse it.

The department originally requested general fund to support the implementation of the trauma system. The funding was changed to state special revenue by the Office of Budget and Program Planning in its budget review. State special revenue may not be an appropriate fund source to support this function.

The legislature adopted statutes expressing its policy regarding the use of state special revenue funds (Section 17-1-505(3), MCA). Three of those guidelines that are appropriate to this proposal include: 1) the program or activity provides direct benefits to those who pay the dedicated tax, fee, or assessment; 2) the level of revenue from the fee is commensurate with program costs; and 3) the dedicated revenue does not impair the legislature's ability to scrutinize budgets, control expenditures, and establish priorities for state spending. The use of a state special revenue account does not appear to meet these legislative policy guidelines for this proposal.

LFD ISSUE

The vehicle registration fee does not have a direct relationship to the need for or use of trauma are. While persons injured in vehicle accidents may require trauma care, they are not the only persons who need and access such care. And not all persons paying vehicle registration fees require trauma care. Users of trauma care and those who benefit from it are a more diverse population than persons paying to register vehicles.

The vehicle fee may not be commensurate with program costs and could require an amendment to statute to change the fee to fund changes in program requirements.

Sub-Program Details

Family & Community Health 04

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	30.00	0.00	2.00	32.00	0.00	2.00	32.00	32.00
Personal Services	1,290,657	(1,912)	80,309	1,369,054	5,833	80,591	1,377,081	2,746,135
Operating Expenses	2,494,180	207,510	1,113,000	3,814,690	164,537	2,137,000	4,795,717	8,610,407
Equipment	0	0	0	0	0	0	0	0
Grants	5,872,785	0	0	5,872,785	0	0	5,872,785	11,745,570
Benefits & Claims	8,606,319	3,314,510	0	11,920,829	3,300,000	0	11,906,319	23,827,148
Total Costs	**$18,263,941**	**$3,520,108**	**$1,193,309**	**$22,977,358**	**$3,470,370**	**$2,217,591**	**$23,951,902**	**$46,929,260**
General Fund	1,287,751	8,960	0	1,296,711	9,720	0	1,297,471	2,594,182
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	16,976,190	3,511,148	1,193,309	21,680,647	3,460,650	2,217,591	22,654,431	44,335,078
Total Funds	**$18,263,941**	**$3,520,108**	**$1,193,309**	**$22,977,358**	**$3,470,370**	**$2,217,591**	**$23,951,902**	**$46,929,260**

The Family and Community Health Bureau administers public health programs for women, children, and families including the WIC program, Family Planning, the MIAMI, perinatal programs, Children's Special Health Services, and county grants from the Maternal and Child Health Block Grant. The bureau also coordinates fetal, infant and child mortality reviews, and sudden infant death syndrome (SIDS) prevention.

Program funding is primarily from federal grant funds for WIC, the Maternal Child Health Block Grant, and family planning grant funds. General fund supports a genetics contract (about $600,000 annually), the MIAMI program (about $460,000 annually), health care services for low-income children (about $100,000 annually), some family planning functions (about $25,000 annually), and bureau administration costs (about $70,000 annually). The budget request for the bureau increases about $10.4 million over the biennium primarily due to the addition of: 1) $6.6 million in federal funds to comply with a legislative audit finding; and 2) $2.2 million to upgrade the WIC computer system.

LFD COMMENT

The legislature added the following language to HB 2:

"The department shall provide detailed information on the services provided and results of MIAMI programs on reservations to the appropriate legislative committee by September 1, 2000."

"The department shall prepare and present a report to the appropriate legislative committee on activities funded by the federal abstinence education grant. The department should present the report at the first committee meeting convened after the end of fiscal year 2000. The report must: (1) enumerate and explain how grant funds were expended by type of expenditure in fiscal year 1999 and fiscal year 2000; (2) explain the status of training for communities and other entities; (3) explain other information pertinent to federal grant requirements and outcomes; and (4) identify measurable program goals and objectives for fiscal year 2001 and the 2003 biennium."

LFD COMMENT (Continued)

"Funds in item [Health Care Services for Low-Income Children] must be used to contract with public or private entities for the administration and provision of primary and preventive health care benefits to children who are uninsured and not eligible for Medicaid benefits. To qualify, the family income may be no greater than 185% of the federal poverty level. Funds in item [Health Care Services for Low-Income Children] may be allocated only to those programs that have established a statewide network of medical providers who have agreed to accept reimbursement at a rate lower than would normally be charged for their services. Funds in item [Health Care Services for Low-Income Children] may not be used to pay the state share of Children's Health Insurance Program costs."

The Health and Human Services Joint Appropriations Subcommittee may wish to review the reports provided to the Interim Committee on Children, Families, Health and Human Services in response to the first two items listed. The subcommittee may wish to consider whether to continue language regarding expenditure of general fund appropriated for health services for low-income children.

Present Law Adjustments

	Fiscal 2002					Fiscal 2003				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					34,497					42,483
Vacancy Savings					(36,409)					(36,650)
Inflation/Deflation					22					1,634
Fixed Costs					11,543					12,903
Total Statewide Present Law Adjustments					**$9,653**					**$20,370**
DP 20 - Montana Birth Outcomes Monitoring S	0.00	0	0	60,455	60,455	0.00	0	0	0	0
DP 21 - Fetal Infant Child Mortality Review	0.00	0	0	150,000	150,000	0.00	0	0	150,000	150,000
DP 106 - WIC Infant Formula Rebates	0.00	0	0	3,300,000	3,300,000	0.00	0	0	3,300,000	3,300,000
Total Other Present Law Adjustments	**0.00**	**$0**	**$0**	**$3,510,455**	**$3,510,455**	**0.00**	**$0**	**$0**	**$3,450,000**	**$3,450,000**
Grand Total All Present Law Adjustments					**$3,520,108**					**$3,470,370**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 20 - Montana Birth Outcomes Monitoring Study - The Executive Budget includes $60,455 federal authority in fiscal 2002 to: identify adverse pregnancy outcomes related to human or environmental factors; track incidence of these outcomes; establish services for children with special health care needs; and support prevention of adverse outcomes through education.

DP 21 - Fetal Infant Child Mortality Review - This request adds $300,000 federal authority over the biennium to fund contractual support to communities conducting reviews of deaths, and a state team to advise the department on causes and interventions related to preventable deaths. The fetal, infant, and child mortality review process is authorized in state statute. The review process is intended to assist communities to develop interventions and prevent subsequent deaths of children. In 1998, there were 10 review teams functioning in the state, and they reviewed 98 out of 225 of fetal, infant and child deaths (44 percent). As of August 2000, there are 18 local teams and three tribal jurisdictions, with the capacity to review about 75 percent of all fetal, infant, and child deaths in Montana. The goal is to have capacity to review 100 percent of the deaths by 2001.

DP 106 - WIC Infant Formula Rebates - The Executive Budget includes $6.6 million in federal funds to comply with a legislative audit finding. The Office of the Legislative Auditor (OLA) recommended in the fiscal 1999 DPHHS audit to change the accounting method for WIC infant formula rebates. Under current practice, rebates are considered abatements of expenditures, reducing expenditures for infant formula in WIC. In the opinion of OLA, this practice does not comply with generally accepted accounting principles. The audit recommends DPHHS account for rebates as revenue and not as an abatement of expenditures.

New Proposals	Fiscal 2002					Fiscal 2003				
Sub Prgm	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 103 - Fetal Alcohol Syndrome										
04	0.00	0	0	600,000	600,000	0.00	0	0	600,000	600,000
DP 104 - Health Educator - Women's Health Se										
04	1.00	0	0	54,551	54,551	1.00	0	0	50,719	50,719
DP 107 - MCH Data Analyst Position										
04	1.00	0	0	38,758	38,758	1.00	0	0	36,872	36,872
DP 109 - Upgrade/Replace WIC Eligi & Ben Sys										
04	0.00	0	0	500,000	500,000	0.00	0	0	1,530,000	1,530,000
Total	**2.00**	**$0**	**$0**	**$1,193,309**	**$1,193,309**	**2.00**	**$0**	**$0**	**$2,217,591**	**$2,217,591**

New Proposals

DP 103 - Fetal Alcohol Syndrome - The Executive Budget includes $1.2 million in federal funds received as part of a four-state consortium to develop a plan to address the impacts of fetal alcohol syndrome and fetal alcohol effect (FAS/FAE). FAS is a pattern of birth defects and neurological damage cause by prenatal alcohol exposure and is recognized as the leading identifiable cause of mental retardation and neurologic dysfunction in the United States. The Centers for Disease Control reported a six-fold increase in the incidence of babies born with FAS between 1960 and 1995.

Plan development would include state agencies and academic institutions. A preliminary plan will include, but is not limited to:

?? Education of professionals and the general public;
?? Development of legislation regarding FAS/FAE;
?? Development of a continuum of services for FAS/FAE-diagnosed clients;
?? Screening that promotes early identification and supports early intervention; and
?? Prevention of the incidence of FAS by targeted interventions with the pregnant and child bearing populations

DP 104 - Health Educator - Women's Health Services - This request includes $105,270 federal funds for the biennium for 1.00 FTE health educator position in the Women's Health Section. The FTE is currently funded as a modified position and was funded by the 1999 legislature. Funding for this position has been earmarked in the Title X federal grant since 1989. The health educator position continues to be a requirement of the Title X funding and some of the Title X grant is restricted to this use. This position is responsible for education services, community outreach and marketing, and evaluating education services in local family planning programs as well as training activities and efforts aimed toward the prevention of unintended pregnancy.

DP 107 - MCH Data Analyst Position - This request for $75,630 federal funds for the biennium adds 1.0 FTE. The FTE is currently funded as a modified position. This position will gather and analyze maternal child health data, particularly data required by the Maternal and Child Block Grant, to address the performance measures and health status indicators. Funding will be from existing federal resources.

DP 109 - Upgrade/Replace WIC Eligibility and Benefits System - This request includes $2 million federal funding for the biennium to revise and update the existing Women, Infants, and Children (WIC) automated system used to track eligibility of and food vouchers issued to individual recipients. The current WIC system was implemented in Montana in May of 1994 and uses programs that are becoming obsolete. To address the obsolescence issue, DPHHS contracted to investigate alternative technology solutions. As a result of that investigation, DPHHS is proceeding with plans to update the system.

Sub-Program Details

Communicable Disease 05

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	44.78	0.00	3.85	48.63	0.00	3.85	48.63	48.63
Personal Services	1,843,527	(62,394)	148,571	1,929,704	(50,701)	149,091	1,941,917	3,871,621
Operating Expenses	3,103,424	103,905	387,223	3,594,552	109,745	387,050	3,600,219	7,194,771
Equipment	104,992	0	99,657	204,649	0	99,657	204,649	409,298
Grants	463,007	50,000	0	513,007	50,000	0	513,007	1,026,014
Benefits & Claims	6,496	0	0	6,496	0	0	6,496	12,992
Debt Service	2,576	0	0	2,576	0	0	2,576	5,152
Total Costs	**$5,524,022**	**$91,511**	**$635,451**	**$6,250,984**	**$109,044**	**$635,798**	**$6,268,864**	**$12,519,848**
General Fund	655,785	(26,454)	93,148	722,479	(23,701)	91,576	723,660	1,446,139
State/Other Special	1,974,280	(3,783)	66,926	2,037,423	4,409	67,143	2,045,832	4,083,255
Federal Special	2,893,957	121,748	475,377	3,491,082	128,336	477,079	3,499,372	6,990,454
Total Funds	**$5,524,022**	**$91,511**	**$635,451**	**$6,250,984**	**$109,044**	**$635,798**	**$6,268,864**	**$12,519,848**

The Communicable Disease Control and Prevention Bureau is responsible for several programs related to detection, control, and prevention of communicable diseases. This bureau administers:

?? The STD/HIV Prevention Program, which provides surveillance and outbreak control of reportable infectious diseases, including AIDS and other sexually transmitted diseases;
?? The Sexual Assault Prevention Program;
?? The Immunization Program, which prevents the occurrence and transmission of vaccine-preventable diseases such as measles, mumps, hepatitis, and rubella;
?? The Epidemiology Program, which manages the division's efforts toward disease control through surveillance, outbreak response, and epidemiological efforts;
?? The Food and Consumer Safety Program, which is responsible for ensuring that healthful conditions exist and are maintained in food serving and processing establishments, hotels, motels, campgrounds, public pools, and trailer parks; and for providing training and support services to local health agencies and sanitarians; and
?? The state Public Health Laboratory.

The communicable disease budget rises about $1.5 million over the biennium primarily due to:

?? Federal grants for 1.0 FTE and bioterrorism prevention ($900,000), and lab and epidemiology capacity ($148,000);
?? General fund requests for public health preparedness ($150,000), and 0.85 FTE for compliance investigation ($35,000); and
?? State special revenue requests for 2.0 FTE and public health laboratory costs ($134,000), and local board inspection fund ($100,000).

Present Law Adjustments

	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					(12,224)					(167)
Vacancy Savings					(50,170)					(50,534)
Inflation/Deflation					3,285					6,236
Fixed Costs					26,182					29,071
Total Statewide Present Law Adjustments					**($32,927)**					**($15,394)**
DP 17 - Epi and Lab Capacity Grant	0.00	0	0	74,438	74,438	0.00	0	0	74,438	74,438
DP 19 - Local Board Inspection Fund	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
Total Other Present Law Adjustments	**0.00**	**$0**	**$50,000**	**$74,438**	**$124,438**	**0.00**	**$0**	**$50,000**	**$74,438**	**$124,438**
Grand Total All Present Law Adjustments					**$91,511**					**$109,044**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 17 - Epidemiology and Laboratory Capacity Grant - The executive requests $148,876 federal funds over the biennium to improve epidemiology and laboratory capacity. The grant will enhance laboratory and surveillance capability to identify food-borne illness and emerging problems with Hepatitis C in high-risk populations. While the Center for Disease Control fully funded the food-borne illness objectives, only a small part of the Hepatitis C objective was funded. A portion of the funding ($95,000) will be used to improve and coordinate the disease surveillance and reporting computer system. Base level funding for the public health laboratory was $1.8 million including $0.2 million general fund.

DP 19 - Local Board Inspection Fund - The Executive Budget includes $100,000 state special revenue funds over the biennium due to increases in the number of licensed establishments in existence across the state. Additional authority is necessary due to an increase in numbers of establishments of 7 percent or 490 in the second year of the biennium. Licensed public establishments (including restaurants, trailer courts and campgrounds, motels and hotels, swimming pools and spas) pay DPHHS a fee for establishment licenses. Counties receive 85 percent of the license fee revenue based on performance of inspection, education, and enforcement services. DPHHS collects the establishment fee and remits the appropriate balance to the counties. This proposal would allow DPHHS to remit the anticipated level of fee.

New Proposals

	Fiscal 2002					Fiscal 2003				
Sub Prgm	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 87 - Compliance Investigator FTE increa										
05	0.85	18,148	0	21,031	39,179	0.85	16,576	0	22,733	39,309
DP 110 - Public Health Laboratory										
05	2.00	0	66,926	0	66,926	2.00	0	67,143	0	67,143
DP 111 - Bioterrorism preparedness										
05	1.00	0	0	454,346	454,346	1.00	0	0	454,346	454,346
DP 150 - Public Health Preparedness										
05	0.00	75,000	0	0	75,000	0.00	75,000	0	0	75,000
Total	**3.85**	**$93,148**	**$66,926**	**$475,377**	**$635,451**	**3.85**	**$91,576**	**$67,143**	**$477,079**	**$635,798**

New Proposals

DP 87 - Compliance Investigator FTE Increase - The Executive Budget adds 0.85 FTE and $78,488, including $34,724 general fund, over the biennium due to higher workload in the Food and Consumer Safety section. Increased duties include regulation of tattooing (Section 50-50-103, MCA) and statutorily-mandated negotiated rule making processes in two regulatory areas (Sections 50-50-103 and 50-31-104, MCA). The 0.85 FTE would augment a current 0.15 FTE compliance investigator position, which performs inspections of food manufacturers across the state.

DPHHS has negotiated additional funding through the Food and Drug Administration contract to support about 80 percent of the full cost of the FTE. Additional program duties would be transferred to this position to create a full FTE, with a full workload.

DP 110 - Public Health Laboratory - This request would convert 2.00 FTE modified positions in the public health laboratory to permanent positions and add $134,069 state special revenue. The positions perform laboratory testing, and data entry, and mailroom duties. The request is funded from fee income for laboratory testing.

DP 111 - Bioterrorism Preparedness - The executive request includes 1.0 FTE and $908,692 federal funds over the biennium for a grant to:

?? Enhance surveillance of disease, in order to assure early detection of bioterrorism events or other public health disasters;

?? Assure a minimum standard of technology and communication equipment at each local health department and DPHHS; and

?? Provide training to local and state public health staff to prepare for public health disasters, including possible bioterrorist attacks.

LFD ISSUE

The legislature may wish to consider whether to direct that the FTE be withdrawn from future budget requests if grant funds are not available to support the position.

DP 150 - Public Health Preparedness - This request adds $150,000 general fund over the biennium to increase funding from $25,000 to $100,000 per year to prepare for and respond to significant health issues in Montana. DPHHS currently receives about 15-20 reports each year of perceived clusters of adverse health events statewide, each of which requires an in-depth investigation. Following the press coverage of the incident in Libby, the number of reported potential environmental health issues has dramatically increased.

Current known needs include:

- ?? Hospitalization of indigent persons with active tuberculosis disease when medically indicated or for public health necessity, not funded at the state or local level since the closure of Galen State Hospital;
- ?? Chlamydia screening and treatment for men, available now due to new testing technology;
- ?? Hepatitis vaccine for at-risk adults, a top priority, given the serious outbreak in 1999/2000 with 10 fatalities; and
- ?? Influenza and pneumococcal vaccine for at-risk adults under 65.

LFD COMMENT The legislature has added language to HB 2 the last two biennia to allow unspent general fund appropriations within the department to be used for emergency situations. The most recent language is: "The department is authorized to use up to $50,000 of general fund money from other appropriations within the department for expenditures related to disease outbreaks and other public health emergencies that may occur during the 2001 biennium."

Since DPHHS is requesting a $14 million general fund supplemental appropriation for fiscal 2001 in HB 3, there will not be excess general fund available in fiscal 2001to support this function.

Sub-Program Details

CHIP 06

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	4.54	6.00	0.00	10.54	6.00	0.00	10.54	10.54
Personal Services	243,518	167,789	0	411,307	169,337	0	412,855	824,162
Operating Expenses	148,128	989,120	0	1,137,248	1,013,979	344,178	1,506,285	2,643,533
Equipment	36,836	24,000	0	60,836	0	0	36,836	97,672
Benefits & Claims	3,498,308	8,760,406	0	12,258,714	8,759,732	3,441,778	15,699,818	27,958,532
Total Costs	**$3,926,790**	**$9,941,315**	**$0**	**$13,868,105**	**$9,943,048**	**$3,785,956**	**$17,655,794**	**$31,523,899**
General Fund	668,563	1,978,858	0	2,647,421	1,999,993	728,418	3,396,974	6,044,395
State/Other Special	136,151	(136,151)	0	0	(136,151)	0	0	0
Federal Special	3,122,076	8,098,608	0	11,220,684	8,079,206	3,057,538	14,258,820	25,479,504
Total Funds	**$3,926,790**	**$9,941,315**	**$0**	**$13,868,105**	**$9,943,048**	**$3,785,956**	**$17,655,794**	**$31,523,899**

The CHIP program includes staff and resources to administer an insurance program for children in families with incomes less than 150 percent of the federal poverty level ($25,575 for a family of 4 in 2000). The state contracts with private insurance carriers to provide and pay for services. Families with incomes above 100 percent of the federal poverty level pay an annual co-payment of $215.

CHIP is funded from a fixed federal grant. States have three years to spend the grant allotment from the time it is received. Federal funds require a state match based on a percentage of the match rate for Medicaid benefits. The Montana match requirement for federal CHIP funding is 19.09 percent in fiscal 2002, and 19.24 percent in fiscal 2003. Administrative costs are limited to 10 percent of the grant amount.

CHIP is not an entitlement. Enrollment in the program is limited by the funds available.

Present Law Adjustments	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					(23,433)					(22,532)
Vacancy Savings					(6,120)					(6,147)
Inflation/Deflation					679					1,206
Fixed Costs					17,825					18,157
Total Statewide Present Law Adjustments					**($11,049)**					**($9,316)**
DP 44 - CHIP Annualization	6.00	1,899,906	0	8,052,458	9,952,364	6.00	1,914,835	0	8,037,529	9,952,364
Total Other Present Law Adjustments	**6.00**	**$1,899,906**	**$0**	**$8,052,458**	**$9,952,364**	**6.00**	**$1,914,835**	**$0**	**$8,037,529**	**$9,952,364**
Grand Total All Present Law Adjustments					**$9,941,315**					**$9,943,048**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 44 - CHIP Annualization - The Executive Budget includes 6.0 FTE and $19.9 million total funds and $3.8 million general fund to annualize the cost of CHIP. Enrollment in CHIP increased gradually reaching 8,858 in November 2000. Table 07-07 shows CHIP enrollment by month starting in October 1999 when DPHHS began the expansion authorized by the 1999 legislature. Prior to that date, the department had run a pilot program. Average annual enrollment in CHIP was substantially lower in the base budget, about 2,850 children, than ongoing enrollment, which was expected to be 9,275.

This request adds 6.00 FTE as well as funding for premium payments. The FTE are currently filled and determine eligibility for and enroll children in the CHIP program. The request would change the FTE from modified to permanent status. The fiscal note for Senate Bill 81, which authorized CHIP, included funding for 4.0 FTE to manage the CHIP program. Initially DPHHS intended to contract with a private company to perform the eligibility and enrollment functions for CHIP. When comparing the cost of contracting these functions versus hiring FTE, DPHHS discovered it would save $214,000 per year by using 6.0 modified FTE.

Table 7-07
Monthly and Total Enrollment
Children's Health Insurance Plan

Month	Enrolled Children New	Enrolled Children Total
October 1999*	1,209	1,209
November	700	1,909
December	549	2,458
Janaury 2000	(216)	2,242
February	786	3,028
March	860	3,888
April	888	4,776
May	424	5,200
June	621	5,821
July	777	6,598
August	436	7,034
September	504	7,538
October	305	7,843
November	1,015	8,858

*October 1999 was the month that DPHHS began the expansion of the CHIP program authorized by the 1999 legislature. The 1,209 eligible children were those enrolled in the pilot program that DPHHS had operated in fiscal 1999.

LFD ISSUE

During legislative staff review of total CHIP federal grant funds available, the executive discovered that the present law adjustment to annualize CHIP coverage was short $154,259 general fund each year of the 2003 biennium. The shortfall resulted from a projection to annualize expenditures based on an estimate of fiscal 2000 costs that was too high. Since the estimate of base costs was too high, the annual adjustment requested was too low. The executive had not indicated whether the request would be raised to offset the shortfall. Under the Executive Budget as proposed, the number of children that will be covered by CHIP will decrease by about 577 to a total of 8,698 (based on fiscal 2001 insurance premium costs).

LFD COMMENT

During fiscal 2000, DPHHS expanded the CHIP program to include mental health services provided by the state-funded Mental Health Services Plan (MHSP). This step was taken as one of the cost saving measures implemented in response to cost over-runs in the mental health services program.

The state-funded MHSP program provides services for children who are determined to be seriously emotionally disturbed (SED) and in families with incomes below 150 percent of the poverty level. While financial eligibility for CHIP and MHSP are similar, there are some children eligible for MHSP who are not eligible for CHIP, including children whose families have health insurance or whose parents are state employees. Otherwise, children receiving services in MHSP should be eligible for CHIP as well.

DPHHS staff estimate that the expansion of CHIP to include MHSP services is projected to offset $3.2 million of general fund costs annually beginning in fiscal 2000. Since MSHP is fully funded from the general fund, the state match for CHIP expenditures is paid from existing general fund appropriations. Federal CHIP expenditures are estimated to increase $3.2 million annually.

LFD COMMENT

A state has three years from the date it receives a federal CHIP grant to expend the funds. Unexpended grant funds revert to the federal government. Legislation before Congress reallocates reverted CHIP funds to: 1) states that expended more for CHIP programs than was covered by federal matching funds; and 2) states that did not fully expend grant funds. Montana reverted $5.8 million from its initial grant of $11.7 million. Although Montana may receive a reallocation from unspent federal CHIP grant funds, it will be less than the amount reverted.

New Proposals

	Fiscal 2002					Fiscal 2003				
Sub Prgm	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 145 - CHIP Eligibility Increase										
06	0.00	0	0	0	0	0.00	728,418	0	3,057,538	3,785,956
Total	**0.00**	**$0**	**$0**	**$0**	**$0**	**0.00**	**$728,418**	**$0**	**$3,057,538**	**$3,785,956**

New Proposals

DP 145 - CHIP Eligibility Increase - The Executive Budget adds $3.8 million total funds, including $728,418 general fund, in fiscal 2003 to increase financial eligibility for CHIP from 150 percent of the federal poverty level to 175 percent. (A companion proposal, NP 987, in the mental health services programs administered by the Addictive and Mental Disorders Division contains funding to partially support an increase in MHSP financial eligibility to 175 percent of the federal poverty level for services offered within that program.)

As noted previously, each year Montana receives a federal CHIP allotment and has up to three years to spend this allotment before it reverts to the federal government. Montana has not fully expended the first two years of its CHIP federal grant. The department is requesting $728,418 in general fund to match $3.1million unexpended funds from the second and third federal grants.

This proposal would allow Montana to insure more children under CHIP rather than revert the federal dollars. Ninety percent of the requested amount will be used for benefits, 10 percent will be spent on administration. Because the department receives a new CHIP allotment each year, the carry-forward periods and allotments overlap. A table in the agency overview shows the estimated total CHIP grant award and Executive Budget expenditure level through federal fiscal year 2007.

DPHHS estimates there are 16,443 Montana children living in families with incomes under 200 percent of the federal poverty level who are uninsured and who would be eligible for CHIP. By increasing CHIP eligibility to 175 percent of the federal poverty level, the department could serve an additional 2,473 children based on the fiscal 2001 health insurance premium cost and the amount requested in the Executive Budget. The total number of children served by CHIP would be 11,713. However, if premium costs increase during the 2003 biennium, the total number of children covered by CHIP will be less.

LFD ISSUE

The Executive Budget request is based on the assumption that the program will serve 2,473 children. It is not clear from documentation provided whether 2,473 children are: 1) the full annual enrollment for fiscal 2003; or 2) the average number of children that will be served during an incremental expansion. If 2,473 children is the former, then the legislature may wish to request that DPHHS explain how all eligible children will be added at the start of the fiscal year. If 2,473 children is the latter, the legislature may wish to ask DPHHS what annualized program enrollment would be in the 2005 biennium.

2,473 as Full Enrollment

If program enrollment is managed as it has been during the 2001 biennium, it could be difficult for all children to be enrolled and eligible the first day of the fiscal year. At its peak efficiency, the program enrolled 1,400 children in one month, with an average closer to 800. The program would need to begin enrolling children at least six months prior to the start of fiscal 2003 in order to have an annualized enrollment of 2,473.

Unless DPHHS plans on initiating enrollment prior to the date eligibility can begin, the appropriation requested in the Executive Budget is in excess of the amount needed. Table 7-08 shows the amount needed to expand CHIP based on various percentages of annualized enrollment in the program. For example, if 2,473 would be the total number of children added for 175 percent of the federal poverty level, and only 60 percent of that number could be incrementally added during fiscal 2003, the Executive Budget request includes $300,693 too much general fund.

Table 7-08
Comparison of Executive Budget for CHIP Financial Eligibility Expansion
At Various Levels of Annualizaed Enrollment

Proposal/ Estimate	Number Enrolled	Annual Cost/Child*	Total Cost	Benefits Request	Request Over/(Under) Total	Gen. Fd.
Full Annualized Enrollment	2,438	1,412	3,441,778	3,441,778		
Amount Needed at Various Levels of Annualized Enrollment						
80 Percent	1,950	1,412	2,753,422	3,441,778	688,356	163,992
70 Percent	1,706	1,412	2,409,245	3,441,778	1,032,533	245,987
60 Percent	1,463	1,412	2,065,067	3,441,778	1,376,711	327,983

The annual cost per child is the premium payment for the regular insurance plan in fiscal 2001. Mental health services are not included in this analysis. Inflation increases in the premium are not included in the Executive Budget request.

2,473 as First Year Incremental Enrollment

If 2,473 children represent a lower number than full annualized enrollment in subsequent years, the legislature may wish to ask DPHHS what level of enrollment it anticipates once enrollment is annualized. Alternatively, the legislature could consider adding language to HB 2 directing DPHHS as to the level of the present law adjustment that could be requested to continue this initiative during the 2005 biennium.

LFD COMMENT

The agency overview includes a section on the total amount of federal CHIP funds requested in the Executive Budget. Federal CHIP funds are also budgeted to support expanded mental health services. The legislature may wish to consider the total allocation of federal CHIP funds as part of its decision to fund this new proposal.

As noted in the agency overview, the department is proposing legislation to increase financial eligibility for CHIP from 150 to 200 percent of the federal poverty level (Section 53-4-1004, MCA). The legislature may wish to consider whether to recommend that eligibility be established at 175 percent in coordination with the budget request.

Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	113.71	1.00	0.00	114.71	1.00	0.00	114.71	114.71
Personal Services	4,335,905	312,670	0	4,648,575	339,024	0	4,674,929	9,323,504
Operating Expenses	1,765,600	85,161	428,800	2,279,561	94,994	428,800	2,289,394	4,568,955
Equipment	37,773	0	0	37,773	0	0	37,773	75,546
Grants	0	0	370,000	370,000	0	370,000	370,000	740,000
Total Costs	**$6,139,278**	**$397,831**	**$798,800**	**$7,335,909**	**$434,018**	**$798,800**	**$7,372,096**	**$14,708,005**
General Fund	1,658,639	274,349	(375)	1,932,613	285,537	(375)	1,943,801	3,876,414
State/Other Special	386,883	19,828	0	406,711	21,240	0	408,123	814,834
Federal Special	4,093,756	103,654	799,175	4,996,585	127,241	799,175	5,020,172	10,016,757
Total Funds	**$6,139,278**	**$397,831**	**$798,800**	**$7,335,909**	**$434,018**	**$798,800**	**$7,372,096**	**$14,708,005**

Program Description

The Quality Assurance Division provides a comprehensive and coordinated quality assurance program and evaluates services provided by DPHHS to the citizens of Montana. Functions include the provision of:

?? Fair hearings;
?? Facility management;
?? Contract and financial audits;
?? Ongoing reviews to monitor the appropriate use of Medicaid by recipients and providers;
?? Estate, cost avoidance and fraud recovery;
?? Quality control samples for compliance with federal and state eligibility rules;
?? Performance measures and benchmarking;
?? Certification of health care facilities and clinical laboratories; and
?? Inspection and licensure of health care providers and other facilities or services licenses issued by the department.

Program Reorganization

The community residential licensing function (licensing of group homes foster care children and developmentally disabled persons) was moved to the Quality Assurance Division from the Child and Family Services Division in fiscal 2000. The reorganization involved the transfer of 7.0 FTE, 5.0 of whom are located in field offices, and $315,742 (including $217,321 general fund).

Another 0.7 FTE was transferred to the Quality Assurance Division from the Child and Family Services Division to support childcare licensure. That function was transferred during the 1999 biennium.

Funding

The Quality Assurance Division is funded primarily from federal funds (68 percent of the 2003 biennium request). The single largest source of federal funds is Medicaid funding, which accounts for 19 percent of the request if all Medicaid funds are combined. General fund accounts for 26 percent of program funding; state special revenue accounts for 6 percent. Table 8-01 shows funding for the 2003 biennium division budget request compared to the base budget.

The general fund supports the full cost of radiological equipment testing, the state match for Medicaid and Title IV-E (foster care) eligible costs, a portion of childcare licensure, and a portion of division administration.

State special revenue includes alcohol taxes allocated to DPHHS, lien and estate recoveries for Medicaid services, and indirect funds (largely county funds). Alcohol taxes fund staff and contracted services for chemical dependency program licensure. Lien and estate funds pay for contracted services to pursue recoveries for the cost of Medicaid-funded nursing home services. The contractor is paid about 20 percent of collections. County funds are property tax revenues from nonassumed counties. These funds pay the county share of costs for fair hearings for the Medicaid, Food Stamp, and FAIM benefit programs.

Table 8-01
Quality Assurance Division Funding

Fund Source	Fiscal 2000 Actual	Executive Request 2002	Executive Request 2003	Percent of Total
General Fund	$ 1,658,639	$ 1,932,613	$ 1,943,801	26.4%
Percent of Total Funds	27.0%	26.3%	26.4%	
State Special Revenue				
Lien & Estate Recovery	144,538	144,474	144,474	2.0%
Earmarked Alcohol Funds	57,227	57,834	58,204	0.8%
Indirect	185,118	204,403	205,445	2.8%
Subtotal SSR	386,883	406,711	408,123	5.5%
Percent of Total Funds	6.3%	5.5%	5.5%	
Federal Funds				
Title 18 (Medicare)	$ 1,034,633	$ 1,074,153	$ 1,082,221	14.7%
Medicaid Admininstration	909,948	937,879	941,609	12.8%
Rural Hospital Flexibility	0	800,000	800,000	10.9%
Medicaid Benefits	416,840	449,935	453,151	6.1%
Discretionary Child Care	444,994	416,320	418,868	5.7%
Child Care Admin.	78,945	79,025	79,509	1.1%
Title IV-E (Foster Care)	77,757	77,829	78,268	1.1%
Title 18 (Medicare - CLIA)	58,303	58,573	58,946	0.8%
FDA Mammography Inspec.	46,814	48,169	48,461	0.7%
OBRA Nurse Aide	15,105	28,771	28,918	0.4%
ADAD Block Grant	3,528	3,528	3,528	0.0%
Indirect	1,006,889	1,022,403	1,026,693	13.9%
Subtotal Federal	4,093,756	4,996,585	5,020,172	68.1%
Percent of Total Funds	66.7%	68.1%	68.1%	
Total Funds	$ 6,139,278	$ 7,335,909	$ 7,372,096	100.0%
Annual Rate of Change from Base Budget		9.3%	6.3%	

There are nine separate federal funding sources used by the Quality Assurance Division. Some federal sources support more than one function.

?? Medicaid funds support third party (insurance and private pay) recovery, the surveillance, utilization and review unit, the nurse aide registry for nursing homes and the Department of Justice fraud investigation contract.
?? Medicaid and Medicare funds support certification of nursing home and personal care services.
?? Medicare CLIA pays for the review of some laboratories so that they can qualify for federal funding.
?? The rural hospital flexibility grant supports grants and other activities that allow local hospitals to maintain critical access hospital status.
?? Childcare funding supports licensure of childcare facilities.
?? Title IV-E pays for the federal share of licensing community residential facilities.
?? Mammography funds pay for inspections of mammography equipment.
?? Federal indirect funding represents the federal share of allocated administrative costs such as those for fair hearings and administrative costs.

Present Law Adjustments

	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					406,554					433,592
Vacancy Savings					(129,955)					(130,764)
Inflation/Deflation					11,656					20,031
Fixed Costs					839					2,297
Total Statewide Present Law Adjustments					**$289,094**					**$325,156**
DP 172 - Increased Licensure Bureau Services	1.00	108,737	0	0	108,737	1.00	108,862	0	0	108,862
Total Other Present Law Adjustments	**1.00**	**$108,737**	**$0**	**$0**	**$108,737**	**1.00**	**$108,862**	**$0**	**$0**	**$108,862**
Grand Total All Present Law Adjustments					**$397,831**					**$434,018**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 172 - Increased Licensure Bureau Services - The Executive Budget includes $216,754 general fund for the biennium, and covers two items: 1) hire 1.0 FTE; and 2) expand contracted services. The FTE would provide additional inspection, survey, emergency response and public education services for the radiological program. The contract expansion would cover residential health care inspections.

There are 960 radiological installations in Montana. Currently the Quality Assurance Division has 1.0 FTE to survey, inspect, register and license radiology facilities and services. The position has been vacant for about six months due to inability to recruit. Administrative Rules of Montana require that a facility register radiological equipment within 30 days of acquisition and reregister equipment every 2 years and that the equipment be inspected as time and resources allow.

The Quality Assurance Division has 2.0 FTE to survey and licenses 17 different categories of health care facilities and services, as well as 4 different categories of residential care facilities. The division has been able to meet the statutory obligation of inspection, licensing and relicensing facilities due to three year extended licensing and the use of contracted services. The division is requesting an increase of $60,000 for contracted services due to current and anticipated growth of personal care and adult foster care facilities. The base amount expended is $40,000, so the request would provide a 120 percent increase.

LFD COMMENT

The division is undertaking a focus survey of nursing facility beds and services in personal care facilities. The legislature may wish to review the survey results and division work plans due to the survey in establishing the amount necessary for providing contracted services for the licensure function

New Proposals										
	Fiscal 2002					Fiscal 2003				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 91 - Leased Motor Pool Cars										
08	0.00	(375)	0	(825)	(1,200)	0.00	(375)	0	(825)	(1,200)
DP 114 - Critical Access Hospital Flex Grant										
08	0.00	0	0	800,000	800,000	0.00	0	0	800,000	800,000
Total	**0.00**	**($375)**	**$0**	**$799,175**	**$798,800**	**0.00**	**($375)**	**$0**	**$799,175**	**$798,800**

New Proposals

DP 91 - Leased Motor Pool Cars - The Executive Budget includes a reduction of $2,400 total funds and $750 in the general fund for the biennium for 2 motor pool lease cars in the Billings and Miles City field offices. The request would reduce costs since the cost of leasing cars is anticipated to be lower than the cost of reimbursing employees for using private vehicles for work-related travel.

DP 114 - Critical Access Hospital Flex Grant - The Executive Budget requests $1.6 million in federal funds over the biennium to continue a program established through budget amendment in the 2001 biennium. The program provides rural hospitals with grants to purchase equipment and convert to critical access hospital status. Grants have supported emergency medical services, as well as quality improvement and quality assurance programs and activities. Some of the grant funds are being used to fund planning and other activities that will help rural hospitals recruit and retain health professionals.

LFD COMMENT

The request allocates the bulk ($430,000 per year) of the rural hospital grant program to contracted services, an operating expense. The balance ($370,000 per year) is budgeted in the grant category. Activities budgeted in contracted services appear to benefit administration and the operation of local hospitals as opposed to supporting direct operations of the Quality Assurance Division. Division staff reports that a small fraction of the grant (between $35,000 and $80,000) is expended to administer the grant and that the balance of grant expenditures directly benefits rural hospitals.

The Executive Budget may overstate government operating costs and understate local grant costs. If the legislature approves the appropriation, it may wish to direct staff to record an appropriate amount of the appropriation and anticipated expenditures in the grant category instead of as program-operating costs.

Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	140.00	0.00	0.00	140.00	0.00	0.00	140.00	140.00
Personal Services	4,962,930	430,818	0	5,393,748	461,563	0	5,424,493	10,818,241
Operating Expenses	22,711,118	2,123,515	0	24,834,633	2,584,855	0	25,295,973	50,130,606
Equipment	41,352	0	0	41,352	0	0	41,352	82,704
Debt Service	317,198	0	0	317,198	0	0	317,198	634,396
Total Costs	**$28,032,598**	**$2,554,333**	**$0**	**$30,586,931**	**$3,046,418**	**$0**	**$31,079,016**	**$61,665,947**
General Fund	10,767,331	1,553,181	0	12,320,512	1,713,763	0	12,481,094	24,801,606
State/Other Special	2,062,464	218,808	0	2,281,272	235,047	0	2,297,511	4,578,783
Federal Special	15,202,803	782,344	0	15,985,147	1,097,608	0	16,300,411	32,285,558
Total Funds	**$28,032,598**	**$2,554,333**	**$0**	**$30,586,931**	**$3,046,418**	**$0**	**$31,079,016**	**$61,665,947**

Program Description

The Operations and Technology Division (OTD) provides support services for the Department of Public Health and Human Services. Services provided by the division include: 1) fiscal and accounting services; 2) budget preparation and managerial services; 3) purchasing, leasing and mail room services; and 4) development and operation of internal computer systems and telecommunications.

OTD manages contracts for several large computer systems including:

?? The Economic Assistance Management System (TEAMS);
?? System for the Enforcement and Recovery of Child Support (SEARCHS);
?? Montana Medicaid Information System (MMIS); and
?? Child and Adult Protective Services System (CAPS).

The division also manages vital records and statistics, and in fiscal 2000, managed microbiology and chemistry laboratory services as well. The department is changing the organization of the OTD. Effective in fiscal 2001, microbiology and chemistry laboratory services will be managed by the Health Policy and Services Division (HPSD). Even so, the budget for laboratory services for the 2003 biennium has been included in the OTD.

Program Narrative

The Operations and Technology Division (OTD) 2003 biennium budget request is $5.6 million higher than the 2001 biennium request. Present law adjustments account for the total increase, including an increase of $3.3 million in general funds.

The most significant changes included in the Executive Budget are:

?? Increased mainframe computer costs for SEARCHS totaling $1.3 million;
?? Increased mainframe computer costs for TEAMS totaling $.8 million;
?? Increased costs for the Medicaid Management Information System (MMIS) totaling $.8 million; and,
?? Increased mainframe computer cost for CAPS totaling $.5 million.

The four major automated systems are funded in the following ways.

?? TEAMS
- The TEAMS facility maintenance contract costs included in OTD are funded on a 50/50 basis with general fund and federal funds.
- TEAMS re-procurement costs included in Human and Community Services Division (HCSD) are entirely funded with federal funds.
- TEAMS computer processing costs are funded with 28.5 percent general fund, 21.5 percent state special revenue (county funds) and 50 percent federal funds.

?? SEARCHS

✍ SEARCHS costs included in the OTD budget are funded with 34 percent general fund and 66 percent federal funds. SEARCHS costs included in the CSED budget are funded with 34 percent state special revenue (child support collections) and 66 percent federal funds.

??MMIS

✍ MMIS costs are funded with 25 percent general fund and 75 percent federal funds.

?? CAPS

✍ CAPS costs are funded with 52 percent general fund and 48 percent federal funds.

Table 1 outlines facility maintenance contract and mainframe computer processing charges for each of the major systems managed by OTD. The department has requested facility maintenance contract increases ranging from 2.3 to 10.9 percent, as compared to the 2001 biennium. Significant cost increases are requested for computer processing charges. The Executive Budget includes 20 percent deflation in computer processing charges and includes present law decision packages that increase computer processing charges to amounts greater than the fiscal 2000 actual expenditure level.

Table 1
Operations and Technology Division
Summary of Major System Costs
Included in 2003 Executive Budget

System	Fiscal 2000 Base	Fiscal 2000 After Deflation*	Fiscal 2002	Fiscal 2003	2003 Biennium Total	Percent Increase Over Base	Funding General Fund	Funding State Special	Funding Federal Fund
TEAMS FM Contract	$ 3,600,990	na	$ 3,649,005	$ 3,721,983	$ 7,370,990	2.3%	$ 3,685,495		$ 3,685,495
MMIS FM Contract*	3,678,396	na	4,000,725	4,158,036	8,158,761	10.9%	2,039,690		6,119,071
CAPS FM Contract	1,435,661	na	1,532,025	1,544,999	3,077,024	7.2%	1,753,903		1,323,121
SEARCHS FM Contract	1,537,532	na	1,605,011	1,615,570	3,220,581	4.7%	1,094,998		2,125,583
CAPS Computer Processing	600,808	480,646	678,243	761,079	1,439,322	19.8%	820,414		618,908
SEARCHS Computer Processing	1,299,839	1,039,871	1,596,780	1,779,848	3,376,628	29.9%	1,148,053		2,228,575
TEAMS Computer Processing	2,209,402	1,767,522	2,067,710	2,230,092	4,297,802	-2.7%	1,224,873	924,028	2,148,901

*Notes:
The Executive Budget includes deflation in mainframe computer processing costs, to 80 percent of the fiscal 2000 level.
Includes voice reponse and provider manual mailing services, also.

LFD ISSUE

Federal food stamp regulations require that food stamp benefits be transferred electronically by October 2002. The department has entered into a contract to complete this project. In September 2000, DPHHS held a meeting to kick off the Food Stamp Electronic Benefits Transfer (EBT) project. The EBT of food stamp benefits is to be implemented in the first half of calendar year 2002 (January - June 2002).

The department plans to use magnetic stripe cards to transmit food stamp benefits electronically. Recipients will receive a card and personal identification number in the mail. The recipient's benefit card will be swiped through a point of sale device that verifies the available benefit level; a debit transaction will then be processed against the available balance. The department will provide point of sale devices to retailers who do not already have such a device. Retailers who handle small numbers of transactions may utilize the telephone to call a voice response unit in order to obtain authorization for the transaction.

The department will collect food stamp transactions on a computer housed by either the department or the department's contractor, as versus utilizing the state mainframe computer. Food stamp transactions will be collected and processed through the Federal Reserve Bank on a daily basis. The department will request and receive an electronic fund transfer to deposit funds from the federal food stamp program into the state treasury each day based upon the value of the transactions processed. Given the process outlined above, the department acts as its own bank instead of contracting with a financial institution to process transactions.

LFD ISSUE (Continued)

Table 2 outlines the costs and funding of food stamp EBT for fiscal 2000 through fiscal 2003. Development costs, including a feasibility study, are estimated at $2.3 million; operations costs are estimated at $240,000 in fiscal 2002 and $800,000 in fiscal 2003. The costs of the project also include estimated hardware costs of $100,000, to be financed over four years. The department plans to fund the food stamp EBT project within the base budget and has not requested additional funding for this project in the 2003 biennium budget.

Table 2
Operations and Technology Division
Summary of Food Stamp Electronic Benefit Transfer
Cost and Funding

		Fiscal 2000			Fiscal 2001			Fiscal 2002			Fiscal 2003		
	Total Costs	General Fund	Federal Fund	Total Funds	General Fund	Federal Fund	Total Total Funds	General Fund	Federal Fund	Total Funds	General Fund	Federal Fund	Total Funds
Feasibility Study	$ 100,000	$18,000	$42,000	$60,000	$ 12,000	$ 28,000	$ 40,000						
Development	2,243,774	-	-	-	406,000	947,333	1,353,333	$267,132	$623,309	$ 890,441			
Operations	1,040,000	-	-	-	-	-	-	88,800	151,200	240,000	$296,000	$ 504,000	$800,000
Hardware Costs*	84,372	-	-	-	10,406	17,718	28,124	10,406	17,718	28,124	10,406	17,718	28,124
Total Costs	$ 3,468,146	$18,000	$42,000	$60,000	$428,406	$993,051	$ 1,421,457	$366,338	$792,227	$ 1,158,565	$306,406	$ 521,718	$828,124

*Notes: Hardware costs are financed over four years.

The 1999 biennium budget included language in HB 2 that:

1) Authorized the expenditure of any unexpended general fund within the department amounting to up to $500,000 annually, to evaluate and develop electronic benefits transfer, and
2) Directed the department to demonstrate to the Legislative Finance Committee - prior to expending funds or committing resources beyond the initial development phase - that electronic benefits transfer is cost neutral over the first seven years of implementation.

Because HB2 did not specify this as a one-time-only appropriation, this $500,000 general fund became part of the base budget. Federal regulations no longer require that EBT of food stamp benefits be cost neutral. However, federal regulations do limit the costs for food stamp EBT to $4.84 per case per month. The department plans to implement EBT for food stamps and to discontinue issuance of food stamp coupons during the 2003 biennium. Even so, the costs of the food stamp issuance contract, totaling $645,000 per year, were not removed from the base budget of the Human and Community Services Division.

There are three options for legislative consideration:

1) Require the department to demonstrate that magnetic card EBT of food stamp benefits is cost neutral to the state when compared to issuing food stamp benefits via coupons;
2) Require the department to demonstrate the rationale for, and cost of, using a department or contractor's computer rather than the Department of Administration mainframe computer to process banking transactions; and
3) Remove funding for the food stamp issuance contract from the Human and Community Services Division budget. (Please refer to related issue in the Human and Community Services Division narrative.)

LFD ISSUE

OTD is responsible for managing and developing computer systems. The base budget for this division includes the costs of existing computer system maintenance and new systems design. However, the Executive Budget for the 2003 biennium includes significant system development and maintenance costs as new proposals within the divisions responsible for program management rather than including these costs in OTD, which is responsible for systems management. Divisions impacted by this practice include the Child Support Enforcement Division (CSED) for System for the Enforcement and Recovery of Child Support (SEARCHS) and the Human and Community Services Division (HCSD) for The Economic Assistance Management System (TEAMS) and the Health Policy and Services Division for the Women, Infants, and Children (WIC) and Drug Rebate Analysis and Management automated systems.

Included in the budget request for the Child Support Enforcement Division (CSED) is a new proposal requesting $1.1 million state special revenue (child support collections) and federal funds to increase the number of programmers included in the SEARCHS facility maintenance contract. The increase requested in the CSED decision package represents a 35 percent increase in the contract. Additionally, SEARCHS costs are funded differently in OTD than they are in CSED. SEARCHS costs included in the CSED budget are funded with state special revenue and federal funds. SEARCHS costs included in the OTD budget are funded with general fund and federal funds. When the 2001 biennium budget was requested, SEARCHS costs in the OTD budget previously funded with state special revenue were instead funded through the general fund. The 2003 biennium Executive Budget continues this practice, although all - or a portion of - these costs could be funded with state special revenue rather than general fund. (Please refer to the discussion of the state special revenue account for child support collections included in CSED narrative for further information on the availability of state special revenue from child support collections.)

Some costs of the TEAMS system are included in the Human and Community Services Division (HCSD) budget, while other costs of the TEAMS system are included in the OTD budget. Included in HCSD budget is a new proposal, FAIM Phase II, that includes $3.0 million to significantly upgrade or replace the TEAMS system, and an additional $.5 million to program and implement Electronic Benefit Transfer (EBT) system for cash assistance benefits. (Please refer to the program narrative for the HCSD for further information on this issue.)

The Health Policy and Services Division budget includes a two proposals that request funding for information technology systems included requests for: 1) $2.0 million federal funds to revise and update the existing Women, Infants, and Children (WIC) automated system, and 2) $200,000 for enhancements and ongoing operations of the Drug Rebate Analysis and Management System. In order to address the obsolescence of the current WIC system, the department entered into a contract to investigate alternative technology solutions. As a result of the investigation of alternative technology solutions the department is proceeding with plans to update the Women, Infants and Children's automated system. The Drug Rebate Analysis and Management System was implemented in September 1999 to replace a system that was not year 2000 compliant. (Please refer to the Health Policy and Services Division for additional information on these proposals.)

Funding

Table 3 summarizes the funding of the OTD fiscal 2000 base budget compared to the 2003 biennium budget requests. The OTD is funded by a combination of general fund, state special revenue and federal funds. Funding for OTD is unique to the function being performed.

Administrative, fiscal and budget support services are charged to the various programs managed by the department through a department-wide cost allocation. Laboratory services are funded by state special revenue generated by the collection of fees. Vital records and statistics are funded with 50 percent general fund, 47 percent state special revenue and 3 percent federal funds. The tumor registry is funded with 48 percent general fund and 52 percent federal funds.

Table 3
Operations and Technology Division Funding

Fund Source	Fiscal 2000 Base Budget	Budget Request Fiscal 2002	Fiscal 2003	Percent of Total
General Fund	$ 10,767,331	$ 12,320,512	$ 12,481,094	40.2%
Percent of Total	38.4%	40.3%	40.2%	
State Special Revenue				
Chem Lab	568,888	606,819	610,956	2.0%
Cost Allocation	1,324,662	1,419,288	1,429,922	4.6%
Vital Statistics	168,914	255,165	256,633	0.8%
Subtotal State Special Revenue	2,062,464	2,281,272	2,297,511	7.4%
Percent of Total	7.4%	7.5%	7.4%	
Federal Funds				
Tumor Registry	83,932	85,250	85,591	0.3%
Cost Allocation	15,118,871	15,899,897	16,214,820	52.2%
Subtotal Federal Funds	15,202,803	15,985,147	16,300,411	52.4%
Percent of Total	54.2%	52.3%	52.4%	
Total Funds	$ 28,032,598	$ 30,586,931	$ 31,079,016	100.0%

LFD ISSUE

The overall funding of the division shifts from 38.4 percent general fund to 40.2 percent general fund in the 2003 biennium (Table 4). A shift of 1.8 percent applied to a biennial budget of $61.7 million equates to a general fund increase of over $1.1 million. This funding shift occurs in base budget adjustments and present law adjustments for personal services and fixed costs - items that are not included in specific decision packages for legislative consideration. Present law adjustments other than personal services and fixed costs total $4.1 million for the biennium, of which 35.3 percent (or $1.4 million) is general fund. The funding shift caused by changes in personal services and fixed cost adjustments is created because these costs are related to functions requiring more general fund than generally used within the division. Overall, the division requires approximately 38 percent general fund. However, the functions that personal service and fixed costs are associated with require as much as 60 percent general fund, as compared to a 45 percent average general fund requirement for these functions. As Table 4 indicates, approximately $400,000 of the $1.1 million funding shift is due to these personal service and fixed costs requirements. The remainder of the $1.1 million increase appears to be due to adjustments in base funding. Due to the manner in which cost allocation adjustments were recorded within the OTD in fiscal 2000 it is difficult to determine the precise cause of the remaining funding shift of $700,000.

The legislature may wish to reduce the general fund in the 2003 biennium budget for OTD to:

1) The same percentage general fund as the fiscal 2000 base is funded; or
2) The same percentage general fund as the fiscal 2000 base plus an additional $400,000 general fund.

Table 4
Operations and Technology Division
Increase in General Fund as Percentage of Total Costs
2003 Biennium

	Fiscal 2000 Base Budget	Fiscal 2002 Request	Fiscal 2003 Request	2003 Biennium
General Fund As Percent				-
of Total Funds	38.4%	40.3%	40.2%	40.2%
Total Funds	$28,032,598	$ 30,586,931	$ 31,079,016	$61,665,947
General Fund, Executive Budget	10,767,331	12,320,512	12,481,094	24,801,606
General Fund Requirement				
at Fiscal 2000 (38.4) Percent		11,748,451	11,937,461	23,685,912
Difference, General Fund Shift (A)		572,061	543,633	1,115,694
Present Law Adjustments for:				
Fixed Costs Increase		$ 1,284,111	$ 1,022,179	$ 2,306,290
Personal Services Costs Increase		430,818	461,563	892,381
Total		1,714,929	1,483,742	3,198,671
General Fund Requirement for Fixed Costs and Personal Services Present Law Adjustments				
At Fiscal 2000 Overall General Fund (38.4) Percent		658,705	569,906	1,228,611
At 50 Percent		857,465	741,871	1,599,336
Difference, Funding Shift due to Present Law Increases for Fixed Costs and Pers. Svcs. (B)		198,760	171,965	370,725
Funding Shift Not Due to Present Law Adjustments for Fixed Costs and Personal Services (A less B)		$ 373,301	$ 371,668	$ 744,969

Present Law Adjustments

	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					581,979					613,675
Vacancy Savings					(151,161)					(152,112)
Inflation/Deflation					(837,679)					(834,635)
Fixed Costs					1,284,111					1,022,179
Total Statewide Present Law Adjustments					**$877,250**					**$649,107**
DP 54 - TEAMS Facility Maintenance Contract	0.00	24,007	0	24,008	48,015	0.00	60,496	0	60,497	120,993
DP 55 - MMIS Facility Maintenance Contract	0.00	80,582	0	241,747	322,329	0.00	119,910	0	359,730	479,640
DP 56 - CAPS Facility Maintenance Contract	0.00	50,109	0	46,255	96,364	0.00	56,856	0	52,482	109,338
DP 57 - SEARCHS Facility Maintenance Contract	0.00	22,943	0	44,536	67,479	0.00	26,533	0	51,505	78,038
DP 65 - Cost Allocation Plan Contract	0.00	19,000	5,000	26,000	50,000	0.00	19,000	5,000	26,000	50,000
DP 67 - CAPS Computer Processing	0.00	102,750	0	94,846	197,596	0.00	145,825	0	134,607	280,432
DP 70 - SEARCHS Computer Processing	0.00	189,349	0	367,560	556,909	0.00	251,592	0	488,385	739,977
DP 73 - TEAMS Computer Processing	0.00	85,554	64,540	150,094	300,188	0.00	131,832	99,453	231,285	462,570
DP 75 - Motor Vehicle Leasing	0.00	17,192	3,438	17,573	38,203	0.00	34,345	6,869	35,109	76,323
Total Other Present Law Adjustments	**0.00**	**$591,486**	**$72,978**	**$1,012,619**	**$1,677,083**	**0.00**	**$846,389**	**$111,322**	**$1,439,600**	**$2,397,311**
Grand Total All Present Law Adjustments					**$2,554,333**					**$3,046,418**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 54 - TEAMS Facility Maintenance Contract - This decision package requests funds to increase funding for the existing TEAMS contract and extend the contract beyond October 31, 2001.

LFD COMMENT Please refer to Table 1 and the program narrative for additional information on facility maintenance contract costs increases.

DP 55 - MMIS Facility Maintenance Contract - This decision package requests funds to extend the existing facility maintenance contract for the Montana Medicaid Management Information System (MMIS).

LFD COMMENT Please refer to Table 1 and the program narrative for additional information on facility maintenance contract costs increases.

DP 56 - CAPS Facility Maintenance Contract - This decision package requests increased funding for the CAPS facility maintenance contract for the 2003 biennium.

LFD COMMENT Please refer to Table 1 and the program narrative for additional information on facility maintenance contract costs increases.

DP 57 - SEARCHS Facility Maintenance Contract - This decision package requests increased funding to extend the existing facility maintenance contract beyond October 31, 2001.

LFD COMMENT Please refer to Table 1 and the program narrative for additional information on facility maintenance contract costs increases.

LFD ISSUE Prior to the 2001 biennium SEARCHS costs were funded by state special revenue from child support collections and federal funds. The 2001 biennium budget was funded with general fund and federal funds. It is possible that all or a portion of SEARCHS costs could be funded with state special revenue rather than the general fund. For more information, please refer to the analysis of the child support collections included in the CSED narrative.

DP 65 - Cost Allocation Plan Contract - This decision package requests funding for consulting services to assist the department in preparing a new public assistance cost allocation plan.

DP 67 - CAPS Computer Processing - This decision package requests funds for increased mainframe usage for CAPS.

LFD COMMENT

Please refer to Table 1 and the program narrative for additional information on computer processing costs increases.

DP 70 - SEARCHS Computer Processing - This decision package requests funds for increased mainframe usage for SEARCHS.

LFD COMMENT

Please refer to Table 1 and the program narrative for additional information on computer processing costs increases.

LFD ISSUE

Prior to the 2001 biennium SEARCHS costs were funded with state special revenue from child support collections and federal funds. The 2001 biennium budget was funded with general fund and federal funds. It is possible that all - or a portion of - SEARCHS costs could be funded with state special revenue rather than by the general fund. For more information please refer the analysis of the child support collections included in CSED narrative.

DP 73 - TEAMS Computer Processing - This decision package requests funds for increased mainframe usage for TEAMS.

LFD COMMENT

Please refer to Table 1 and the program narrative for additional information on computer processing costs increases.

DP 75 - Motor Vehicle Leasing - This decision package requests funds to lease ten vehicles in fiscal 2002 and an additional eight vehicles in fiscal 2003. This decision package replaces existing DPHHS owned vehicles with Department of Transportation motor pool vehicles.

Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	607.20	20.00	2.00	629.20	20.00	2.00	629.20	629.20
Personal Services	21,426,688	437,017	79,201	21,942,906	560,462	79,481	22,066,631	44,009,537
Operating Expenses	5,067,882	545,850	0	5,613,732	688,056	0	5,755,938	11,369,670
Equipment	35,047	0	0	35,047	0	0	35,047	70,094
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	65,476,036	3,605,479	5,075,061	74,156,576	3,750,581	8,537,698	77,764,315	151,920,891
Transfers	0	0	0	0	0	0	0	0
Debt Service	55,797	0	0	55,797	0	0	55,797	111,594
Total Costs	**$92,061,450**	**$4,588,346**	**$5,154,262**	**$101,804,058**	**$4,999,099**	**$8,617,179**	**$105,677,728**	**$207,481,786**
General Fund	41,387,750	1,536,719	1,957,886	44,882,355	1,746,061	3,683,743	46,817,554	91,699,909
State/Other Special	97,368	0	0	97,368	0	0	97,368	194,736
Federal Special	50,576,332	3,051,627	3,196,376	56,824,335	3,253,038	4,933,436	58,762,806	115,587,141
Total Funds	**$92,061,450**	**$4,588,346**	**$5,154,262**	**$101,804,058**	**$4,999,099**	**$8,617,179**	**$105,677,728**	**$207,481,786**

Program Description

Disability Services Division assists Montanans with disabilities in living, working, and participating in their communities. The division provides or contracts for institutional care, residential services, home-based services to families, case management, and a variety of employment outcome-related services. These services include counseling and guidance, career training, transportation, adaptive equipment, orientation and mobility services to the blind, vocational rehabilitation training, independent living services, medical services, job placement and supported employment. Disability Services Division is responsible for medical adjudication of all claims for Social Security Disability and Supplemental Security Income. The division is responsible for the state institutions in Glendive, the Eastmont Human Services Center, and Boulder, the Montana Developmental Center. The Developmental Disabilities Planning and Advisory Council (DDPAC) is administratively attached.

Vocational rehabilitation serves individuals with orthopedic, mental, visual, hearing, brain, and other disabilities. Developmentally disabled include individuals with mental retardation, epilepsy, autism, or other neurological conditions that require treatment similar to those required by someone with mental retardation. The developmental disability must have originated before age 18 and have resulted in a substantial handicap for indefinite duration. Statutory authority for the program is provided in Title 53, MCA , 2-15-2204, MCA, 29 U.S.C. 721 et. seq., 29 U.S.C. 796, et. seq., 29 U.S.C. 774, 29 U.S.C. 777b, 29 U.S.C. 2201 et. seq., 42 U.S.C. 75, 6602, 72 U.S.C. 1300, 42 CFR 441.302(b), 42 CFR 441.302(g), 45 CFR 74.62, and 34 CRF Part 303.

Program Narrative

The Disability Services Division (DSD) 2003 biennium budget request is $23.4 million higher than the 2001 biennium. Present law adjustments add $9.6 million, including $3.3 million general fund. New proposals add $13.8 million, including $5.6 million general fund. The most significant changes included in the Executive Budget are:

- Provider rate and wage increases, $6.6 million;
- Reduction of the developmental disabilities program (DDP) waiting list, $4.5 million;
- Annualization of provider rate and wage increases approved by the 1999 legislature, $3.6 million;
- Annualization of the refinancing effort moving individuals from the institutions to the community, $3.5 million; and
- Fully funding the population at the Montana Developmental Center (MDC), $2.8 million.

The Disability Services Division faces significant programmatic challenges surrounding the design and provision of services to the developmentally disabled. Several significant factors are exerting sometimes conflicting pressure in the developmental disabilities arena. Among the external factors impacting provision of services to the developmental disabled are: 1) Travis D., a pending lawsuit filed by the Montana Advocacy Program (MAP); 2) the U.S. Supreme Court decision in the Olmstead v L.C. case; 3) the findings of a Healthcare Financing Administration (HCFA) review of services provided under the Home and Community Based Services Waiver (HCBS); 4) community provider staffing and wage issues; and 5) inclusion by the 1999 legislature of language in HB 2 directing the department to complete and prepare recommendations regarding the future of developmental disabilities services in Montana.

MAP lawsuit
In 1996 the Montana Advocacy Program (MAP) filed the Travis D. class action lawsuit. Defendants in the Travis D. lawsuit include the state of Montana, Montana Developmental Center, Eastmont Human Services Center, and key personnel. The legal basis for this lawsuit includes the integration mandate of the Americans with Disabilities Act (ADA), equal protection rights of the 14th Amendment, the Social Security Act (Medicaid) and the right to due process. The Montana Advocacy Program seeks to protect the civil rights of individuals with disabilities, and seeks the provision of appropriate community services for individuals with disabilities. The Montana Advocacy Program put this lawsuit on hold while participating in the Developmental Disabilities Future Study group. Since the study group concluded its study, and prepared and presented recommendations to the Children, Families, Health, and Human Services Interim Committee, the Montana Advocacy Program has indicated it will continue to pursue the Travis D. lawsuit, although they would prefer that an out-of-court settlement be achieved.

Olmstead
In June 1999 the U.S. Supreme Court issued its decision in the case of Olmstead v. L.C. The Olmstead case was brought by two Georgia women whose disabilities included mental retardation and mental illness, and who lived in state run institutions at the time the suit was filed despite treatment professionals' determination that they could be appropriately served in a community setting. The plaintiffs asserted that continued institutionalization was a violation of their right under the Americans with Disabilities Act (ADA) to live in the most integrated setting appropriate. The U.S. Supreme Court responded to the fundamental question of whether it is discrimination to deny people with disabilities services in the most integrated setting appropriate. Based upon the Olmstead decision, states are required to provide community based services for persons with disabilities who would otherwise be entitled to institutional services when: 1) the state's treatment professionals determine that such placement is appropriate; 2) the affected persons do not oppose such treatments; and 3) the placement can be reasonably accommodated taking into account the resources available to the state and the needs of others who are receiving state supported disability services. The court cautions that nothing in the ADA condones termination of institutional settings for persons unable to handle or benefit from community settings.

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

A federal district court in Pennsylvania rejected the argument where the U.S. Supreme Court decision in Olmstead confers on institutionalized individuals the right to remain in a large, state-operated facility. In Richard C. v. Houstons the federal district court confirmed that nothing in the Olmstead ruling precludes a state from closing or downsizing an institution or placing individual residents into the community. The ADA does not confer on individuals or parents and guardians the right to veto such actions.

For further discussion of the Olmstead decision and the agency wide implications of this decision, please refer to the agency narrative.

HCFA review
In September 2000, federal staff from the Denver regional office of HCFA completed a review of services provided to the developmentally disabled under the Home and Community Based Services (HCBS) Waiver administered by the

DSD. The initial findings of the review presented verbally to the DSD on September 29, 2000 included:

- ?? The provider selection process utilized to select waiver service providers violates federal statute;
- ?? HCFA may make recommendations to the state about how waiver resources are allocated;
- ?? HCFA officials observed situations that may compromise the health and welfare of clients;
- ?? The waiver amendment for services the division refers to as "community supports" has not been approved by HCFA, even though the division has begun providing and billing for services under this waiver amendment; and
- ?? HCFA provided direction that the division should discontinue expansion of waiver services for adults.

HCFA officials are scheduled to issue a draft report of their findings in mid-January 2001. States normally have 30 days to comment on the draft report, and HCFA normally issues a final report 30 days after receiving the state's response to the draft report.

LFD ISSUE

The findings presented to the department verbally by HCFA officials represent initial findings not yet fully explored and that have not yet been provided to the state in written form. HCFA officials continue to work toward completion of the waiver review. However, the initial findings are significant, and present several challenges and opportunities for redesign of the service delivery system.

Contractor Selection, Freedom of Choice, Slot System of Allocation

The issue of Montana's contractor selection (request for proposal) process and the limiting affect this process has on the consumers' freedom of choice and provider participation will lead to significant changes in the developmental disability services delivery system. In an ideal system, the funding for services would be available to the consumer at whatever location the consumer chooses to receive services. Currently, a provider receives a contract that funds a certain number of service units or slots. The contract in essence guarantees the provider that a certain number of clients will utilize their services. In a system where funds follow the individual, where the consumer has freedom of choice, there would be no such guarantee to a provider. The client would choose who would provide services and where they would be provided, thus increasing competition among providers. During the last request for proposal and contacting cycle, the DSD issued two-year contracts that include an option for DSD to renew the contract for an additional two years. Early indications from the department are that they would prefer to renew existing contracts and utilize the time period covered by the contract renewal to develop and implement new processes and procedures that comply with HCFA requirements. At this time, it is unknown whether or not this timeline will be acceptable to HCFA.

HCFA officials have yet to provide the department with finalized issues or recommendations regarding the methods used to allocate services. However, it would seem that the current system, which essentially requires the consumer to move to the location of an available slot, does not fit with a vision of freedom of choice. Until HCFA's findings and recommendations for resource allocation are complete, it is not possible to determine what changes or impact this issue will have on the delivery of service.

Community Supports Waiver

Department staff submitted a waiver amendment to add community supports as a waiver service. Community supports are defined by the division as any individually designed service, or assessment of the need for service, that will assist a consumer to live more independently in the community of his choice within the dollar cap established ($7,800 per individual). The department began providing and billing Medicaid for community supports in October 1999.

LFD ISSUE CONTINUED

Although department staff believe they received verbal approval to begin services under the community supports waiver amendment, HCFA staff reviewing Montana's waiver stated that HCFA had not approved the waiver. Because HCFA does not consider the waiver amendment approved, all services billed under this waiver amendment must be re-billed as a waiver service other than community supports. Department staff has identified alternatives for completion of this rebilling and are consulting with HCFA representatives to arrive at a mutually agreeable rebilling methodology. Department staff believe that all services provided as community supports are Medicaid reimbursable under the waiver (as other than a community supports service). Department staff do not believe there will be a loss of Medicaid reimbursement due to HCFA findings and requirements to re-bill services. The possibility exists that federal reimbursement for the services billed as community supports could be denied. The six month progress report dated June 9, 2000, that was submitted to the Legislative Fiscal Division by the department, indicated that an estimated $334,000 general fund and $489,000 federal funds would be expended for community supports services in fiscal 2000 and that a full $2.2 million would be infused into the developmental disabilities service system in fiscal 2001.

Expansion of Waiver, Health and Welfare

During their September visit, HCFA representatives observed situations of inadequate supervision of clients, dispensing of medications, and medication errors that may affect the health and welfare of clients. In September HCFA representatives directed the division to discontinue expansion of adult waiver services, a direction that is contrary to the Olmstead decision and the movement to provide services in community settings.

HCFA representatives returned to Montana the week of November 13, 2000 and conducted unannounced site visits of providers throughout the state. The findings of these site visits were provided to DSD staff via telephone November 21, 2000. HCFA representatives modified their previous directive that the state discontinue expansion of waiver services for adults. The modified directive from HCFA is that DSD may pursue expansion of adult waiver services, except that it may not expand services at four provider sites where HCFA observed situations that could negatively impact the health and welfare of clients. Department staff indicated they are aware of health and welfare issues and are working with providers to correct problems.

Staffing and Wages

The legislature will hear a great deal about staffing and wage issues, particularly with regard to the provision of community services. Indications are that wage rates, turnover, and availability of qualified workers are all issues within the developmental disabilities service delivery system. The division requests $6.6 million, including $3.3 million general fund, to increase wages and move toward wage parity for direct care workers employed by community providers as compared to wages paid workers employed at the two state institutions.

DSD Future Study

The 1999 legislature included language in HB 2 that directed DSD to develop a proposal by June 2000 to be reviewed by the Children, Families, Health, and Human Services Committee that considers the following options:

1) Moving individuals from the Montana Developmental Center (MDC) and Eastmont Human Services Center (EHSC or Eastmont) to community settings if it is determined that a person may benefit from services in a community setting and if the services appropriate for the person's needs are available;
2) Based upon the population remaining at both institutions, determine if an institution could be closed;
3) If an institution is proposed to be closed, explore and recommend alternative uses for that institution; and
4) Develop a reduction in force plan that takes into consideration a reasonable way to reduce the staff at the institutions through normal attrition and planned layoffs and calculate the cost for paying out sick leave, vacation, and severance pay.

In response the Developmental Disabilities Future Study Work Group was formed, and the following recommendations were made to the Children, Families, Health, and Human Services Committee:

1) Continue to operate MDC and EHSC with continued community referrals and placements;
2) In order to provide a capacity to serve more people in the community, funding for existing developmental

disability services must be substantially increased;
3) Review and revise Montana's commitment law to enable fluid movement between residential facilities and community providers;
4) With continued community referrals and placements, the numbers at MDC and EHSC may change to the point where economy of scale may dictate changes in mission or closure of one or both facilities. Benchmarks are needed to trigger such change. The department should establish such benchmarks and ensure that they are followed;
5) If population benchmarks are reached and closure of one or more facilities is imminent, involve appropriate community stakeholders and identify appropriate alternative uses and ownership of facilities on the campus of MDC and EHSC. All agencies should look at how facilities might be used to accommodate a downsizing of MDC and EHSC; and
6) If a recommendation is made to close one or both residential facilities, 2-18-622, MCA, reduction in force (RIF) applies. Affected labor organizations master contracts will be followed. 39-31-30 MCA states that within a collective bargain unit, severance pay and retraining allowances are negotiable subjects.

The Children, Families, Health, and Human Services Committee recommended that: 1) the department continue to meet with interested parties to resolve the issues surrounding the developmental disability placements; 2) the department work to establish a seamless system, meaning that it provide an appropriate level of service at the appropriate time in a client's continuum of care; and 3) that the department prepare a recommendation for presentation to the legislature to revise or eliminate commitment laws.

LFD COMMENT

Department staff has indicated that legislation changing the commitment laws will probably not be sought during the 2001 legislative session.

Legislative Action
As stated, the Olmstead decision and HCFA review will force significant changes in the delivery of services to the developmentally disabled.

LFD ISSUE

The legislature may wish to take the following actions regarding the developmental disabilities program service delivery system:

1) Because interpretation of Olmstead and other related legal actions is ongoing, and HCFA findings and recommendations may impact the options available to the state to comply with Olmstead, the legislature may wish to provide oversight during the interim to:
   a) Assure that the process of changing the delivery system moves forward at a reasonable pace so that Olmstead and HCFA compliance timelines are met; and
   b) Provide guidance to the department on decisions, actions, and implementation of changes to the service delivery system in a manner that is most likely to be acceptable to the legislature.
2) Direct the department to develop by a specific date a profile of individuals and estimates of the population that will continue to need and desire services in an institutional setting; and establish a timeframe for reducing the institutional population to this level so that the state can demonstrate planned movement to community settings is occurring and that the state's goal is to serve disabled individuals in the most integrated setting possible and not to keep state institutions open.
3) Direct the executive to develop recommended alternative uses of all or parts of Eastmont and MDC.

LFD ISSUE

In order to move toward the vision of an individualized service delivery that includes freedom of choice for the client, the legislature may wish to direct the department to establish a rate-setting system that provides uniform state or regional reimbursement and eliminates the negotiation of funding levels that result in different rates for the same service dependent upon the provider contract, including:

1) A mechanism that reflects the local market wage rates for staff;
2) The ability for funds to be utilized by the consumer at the location and provider of choice.

LFD ISSUE

In order to control or limit the growth in the developmental disabilities services delivery system as the system changes to reflect Olmstead and HCFA requirements, the legislature may wish to consider:

1) Obtaining a Medicaid waiver of statewideness;
2) Imposing income and/or resource criteria to determine eligibility for disability services supported by general fund; and/or
3) Imposing a sliding fee scale or co-payments to offset a portion of the costs of disability services supported by general fund.

Funding

Table 1 summarizes funding for the DSD. DSD is funded with a combination of general fund, state special revenue, and federal funds. Sources of federal funds include:

?? Medicaid;
?? Rehabilitation Grants; and
?? Title XX - Social Services Block Grant (SSBG).

The Montana Development Center and Eastmont Human Services Center are funded with general fund. Eligible services are billed to the Medicaid program and the Medicaid reimbursement received is deposited into the general fund. Table 2 summarizes Eastmont Human Services Center and Montana Developmental Center costs in total, per person, and per day of care for fiscal 2000, 2002 and 2003.

Disability Determination Services are funded 100 percent with federal funds. Vocational Rehabilitation Services are funded with a combination of general fund and federal funds. Services for the developmentally disabled are funded by a combination of general fund, state special revenue, and federal funds. Sources of federal funding for Developmentally Disabled Services include the Medicaid Home and Community Based Waiver (HCBS) and Title XX, Social Services Block Grant.

Table 1
Disability Services Division

Fund Source	Fiscal 2000 Base Budget	Budget Request Fiscal 2002	Budget Request Fiscal 2003	Percent of Total
General Fund	$ 41,387,750	$ 44,882,355	$ 46,817,554	44.3%
Percent of Total	45.0%	44.1%	44.3%	
State Special Revenue				
MDC Vocational	$ 48,674	$ 48,674	$ 48,674	0.0%
DDP Conference	45,228	45,228	45,228	0.0%
Donated Funds - MDC	2,433	2,433	2,433	0.0%
Donations - Eastmont	1,033	1,033	1,033	0.0%
Subtotal State Special Revenue	$ 97,368	$ 97,368	$ 97,368	0.1%
Percent of Total	0.1%	0.1%	0.1%	
Federal Funds				
Social Security Trust Funds	$ 640,743	$ 640,734	$ 640,734	0.6%
Handicapped Migrant	176,546	176,546	176,546	0.2%
Independent Living	292,437	297,113	297,268	0.3%
Independent Living Older Blind	215,685	215,319	215,319	0.2%
Part H Early Intervention	1,611,832	1,611,881	1,611,660	1.5%
VI-C Supported Employment	301,594	301,594	301,594	0.3%
Mon Tech	500,778	500,778	500,778	0.5%
Inservice Training	24,465	24,465	24,465	0.0%
DDPAC Administration	401,573	411,022	411,771	0.4%
Title XX - Social Services Block Gt	6,725,243	6,734,799	6,734,799	6.4%
Medicaid Administration	67,986	68,842	68,842	0.1%
Medicaid Benefits	24,870,545	30,129,947	31,664,327	30.0%
Disability Determiniation	3,604,777	3,953,523	4,124,693	3.9%
Cost Allocation	2,169,872	2,203,324	2,207,147	2.1%
Rehab Secton 110A	8,972,256	9,554,448	9,782,863	9.3%
Subtotal Federal Funds	$ 50,576,332	$ 56,824,335	$ 58,762,806	55.6%
Percent of Total	54.94%	55.82%	55.61%	
Total Funds	$ 92,061,450	$ 101,804,058	$ 105,677,728	100.0%

Table 2
Developmental Disabilities Division
Summary of Institional Costs

	Fiscal 2000 Base	Fiscal 2002 Request	Fiscal 2003 Request
Eastmont Human Services Center			
FTE	97.43	97.43	97.43
Direct Care	1,232,783	1,619,308	1,636,374
Non Direct Care	2,524,798	1,833,032	1,847,277
MAP lawsuit	6,663	6,663	6,663
Total Costs*	$ 3,764,244	$ 3,459,003	$ 3,490,314
Estimated Average Population	47	33	33
Annual Costs Per Person	$ 80,090	$ 104,818	$ 105,767
Annual Days of Care	17,155	12,045	12,045
Average Costs Per Day of Care	$ 219	$ 287	$ 290
Percent Increase		30.9%	0.9%
Montana Developmental Center			
FTE	296.6	316.6	316.6
MDC Direct Care	40,478	1,422,107	1,422,280
MDC Non Direct Care	11,278,355	10,668,983	10,747,478
Total Costs*	11,318,833	12,091,090	12,139,758
Estimated Average Population	84	83	83
Annual Costs Per Person	$ 134,748	$ 145,676	$ 146,262
Annual Days of Care	30,660	30,295	30,295
Average Costs Per Day of Care	$ 369	$ 399	$ 401
Percent Increase		8.1%	0.4%

*Notes:
Does not include $44,719 expended for equipment that was one time only appropriation
Does not include debt service.

LFD ISSUE

The 1999 legislature approved a refinancing proposal requested by the division. This proposal provided the division no additional general fund and $18.2 million federal funds for the biennium to: 1) increase services to individuals waiting for services or to expand services to existing clients; and 2) move individuals from institutions to communities. The 1999 legislature approved expenditure of an estimated $4.7 million that was made available in the division budget due to a waiver, which allowed the division to finance work/day services with Medicaid dollars, and due to moving individuals out of institutions.

While the refinancing did not result in an increased general fund need in the 2001 biennium, the Executive Budget for the 2003 biennium requests additional funding for services initiated by or related to the refinancing proposal. (The December 4, 2000 budget status report prepared by the department anticipates a general fund shortfall of $611,000 in the developmental disabilities services budget.)

?? Although the population at Eastmont has been reduced by 12 individuals as planned, costs to operate Eastmont decrease only about $580,000 over the 2003 biennium compared to fiscal 2000;

?? Although individuals were moved to the community as planned, the population at MDC has not declined. The 2003 biennium costs to operate the facility are projected to increase about $1.6 million above fiscal 2000 costs;

LFD ISSUE (Continued)

?? Funding to annualize the costs of services for those individuals moved from institutions to community settings during the 2001 biennium is estimated to require an additional $968,000 general fund in the 2003 biennium; and

?? $2.1 million general fund is requested to serve an additional 42 individuals in the community including 25 individuals that were proposed to be served in the 2001 biennium. If the requested funding is allocated proportionally, the department is requesting $1.2 million general fund to serve individuals the legislature believed it had appropriated funding to serve in the 2001 biennium.

LFD ISSUE

Federal funding for Title XX, the Social Service Block Grant, has been declining. The Executive Budget includes $13.5 million of Title XX funds in the 2003 biennium budget for DSD. However, if Title XX funding in the 2003 biennium remains at the funding level realized in fiscal 2000, only about $10.7 million in federal funds will be received, creating a shortfall of $2.8 million in the 2003 biennium budget for DSD.

The 1999 legislature anticipated a reduction in Title XX funding for the 2001 biennium, and desired to maintain services at the current level if the anticipated funding reduction occurred. The 1999 legislature included language in HB 2 that provided the department direction regarding funding this anticipated shortfall. HB 2 anticipated utilizing general fund savings in the Medicaid program in coordination with a possible transfer of Temporary Assistance for Needy Families (TANF) block grant funds to Title XX as allowed under federal TANF regulations. The department transferred $1.4 million TANF funds to Title XX for use in DSD in fiscal 2000. The fiscal 2001 budget status report prepared by the department anticipates a similar shortfall in fiscal 2001. Department staff indicated they anticipate that a transfer of TANF funds to Title XX will once again offset this shortfall.

Due to federal restrictions implemented in fiscal 2001, it will not be possible to fully support both the Disability Services Division and Child and Family Services Division at the fiscal 2000 level using TANF funds transferred to Title XX. For a complete discussion regarding the transfer of TANF funds to Title XX and the options available for legislative consideration, please refer to the TANF discussion included in the program narrative of the Human and Community Services Division (HCSD).

LFD COMMENT

Because TANF funds transferred to Title XX must be used to serve families at or below 200 percent of the federal poverty level, the 1999 legislature included language in HB 2 that provides DSD an additional $43,000 general fund in fiscal 2001 to implement means testing to determine eligibility for this funding. Because TANF funds transferred to Title XX were used in fiscal 2000, DSD was required to implement a process for determining eligibility for these funds.

LFD ISSUE

The federal medical assistance participation rate (FMAP) utilized in the Executive Budget for this division was 72.73 percent and 72.52 percent for fiscal 2002 and fiscal 2003 respectively. The actual FMAP rate for fiscal 2002 is 72.88 percent and the Office of Budget and Program Planning's most recent projection of the fiscal 2003 FMAP is 73.02 percent. The change in the estimated FMAP rate lowers the division general fund requirements approximately $273,000 during the 2003 biennium.

Present Law Adjustments

	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					(318,105)					(195,493)
Vacancy Savings					(567,202)					(570,880)
Inflation/Deflation					40,261					37,168
Fixed Costs					11,956					14,025
Total Statewide Present Law Adjustments					**($833,090)**					**($715,180)**
DP 7 - EHSC Base Adjustment For Reduced Population	0.00	44,408	0	0	44,408	0.00	57,190	0	0	57,190
DP 22 - DDS Base Adjustment	0.00	0	0	265,038	265,038	0.00	0	0	425,886	425,886
DP 23 - MDC Building Bond	0.00	0	0	0	0	0.00	0	0	0	0
DP 30 - Annualize/Provide For Tuition Increase	0.00	57,154	0	211,178	268,332	0.00	86,034	0	317,883	403,917
DP 31 - Annualize Direct Care Wage Increase	0.00	455,177	0	454,823	910,000	0.00	454,303	0	455,697	910,000
DP 33 - Annualize DSD Provider Rate Increase	0.00	308,431	0	251,529	559,960	0.00	308,120	0	251,840	559,960
DP 45 - Movement From Institutions To Communities	0.00	485,060	0	1,303,510	1,788,570	0.00	482,556	0	1,306,014	1,788,570
DP 46 - Annualize VR Caseload Increase	0.00	14,440	0	53,354	67,794	0.00	14,440	0	53,354	67,794
DP 66 - Fully Fund MDC Population Growth	20.00	1,400,277	0	0	1,400,277	20.00	1,400,224	0	0	1,400,224
DP 68 - Annualize DSD Base Year Increases	0.00	31,976	0	78,831	110,807	0.00	27,093	0	67,395	94,488
DP 71 - Independent Living Older Blind Base	0.00	6,250	0	0	6,250	0.00	6,250	0	0	6,250
Total Other Present Law Adjustments	**20.00**	**$2,803,173**	**$0**	**$2,618,263**	**$5,421,436**	**20.00**	**$2,836,210**	**$0**	**$2,878,069**	**$5,714,279**
Grand Total All Present Law Adjustments					**$4,588,346**					**$4,999,099**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 7 - EHSC Base Adjustment For Reduced Population - This decision package requests $101,598 general fund for the biennium for costs adjustments at EHSC. Decreases in operational costs resulting from movement of 12 individuals from EHSC to community services are offset by increases for overtime, differential pay, and holidays worked.

DP 22 - DDS Base Adjustment - This decision package requests $690,924 in federal funds for the biennium to fund a projected 10 percent increase in the level of services provided by the disability determination services program. These funds will cover costs associated with staff overtime, a contract to provide on-the-job training for two individuals with developmental disabilities, increased need for medical consultants, rental of additional office space, and an increase in reimbursement costs for claimants required to travel to examinations.

LFD ISSUE

Several divisions within DPHHS maintain field office locations. The legislature may wish to apply a uniform inflation increase to these rent costs. Please see agency narrative for further discussion of rent.

DP 30 - Annualize/Provide For Tuition Increase - This decision package requests $143,188 general fund and $529,061 federal funds for the biennium to annualize funding of the fiscal 2001 4.0 percent increase in tuition costs approved by the 1999 legislature and to fund an anticipated increase of 4.0 percent in tuition costs for each year of the 2003 biennium.

LFD ISSUE

This present law adjustment includes a rate increase for the 2003 biennium as well as annualization of the rate increase approved by the 1999 legislature. Rate increases for the 2003 biennium should be included in new proposals rather than in present law adjustments.

The legislature may wish to include language in HB 2 that restricts this rate increase to no more than the tuition rate increase approved by the board of regents. The legislature may also wish to provide this funding as a restricted appropriation.

DP 31 - Annualize Direct Care Wage Increase - This decision package requests $909,480 general fund and $910,520 federal funds for the biennium to annualize the direct care salary increase authorized by the 1999 legislature into the fiscal 2003 biennium budget.

LFD ISSUE

The 1999 legislature included language in HB 2 that stated in part: "expenditures for all provider rate increases approved by the legislature must be limited to the dollar amounts appropriated rather than a percentage increase."

The DSD was appropriated $910,000 for direct care wage increases. However, the division stated that due to an error in calculating the number of direct care FTE, about 235.6 FTE were not included in the funding received from the 1999 legislature. The estimated costs of direct care wages for fiscal 2000 were $1,061,420 or $151,420 greater than the appropriation received. The division funded direct care wage increases for these additional 235.6 FTE within the base budget. Funding these additional direct care worker wage increases from the base budget appears to violate HB 2 language that restricted all provider rate increases to the dollar amount appropriated.

Additionally, this decision package requests only $910,000 per year to annualize the direct care worker wage increases into the 2003 biennium budget, even though actual costs were higher, which means funds within the base budget have been diverted to provider increases and are no longer available to support other needs of the program

DP 33 - Annualize DSD Provider Rate Increase - This decision package requests $616,551 in general fund and $503,369 federal funds for the biennium to annualize the cost of the 1.0 percent rate increase authorized by the 1999 legislature into the 2003 biennium budget for providers of vocational rehabilitation (VR) and developmental disability (DDP) services.

DP 45 - Movement From Institutions To Communities - This decision package requests $967,616 general fund and $2,609,524 federal funds for the biennium to continue funding services for the 32 individuals that were placed into community services from the MDC and ESHC during the 2001 biennium. The budgeted costs per individual were figured at an average of $75,000 during the previous legislative session. A 2.0 percent inflationary increase was incorporated into this figure to bring the total to $76,500 per individual for the 2003 biennium.

LFD ISSUE

Please see discussion of the refinancing proposal included in the funding section of the narrative.

DP 46 - Annualize VR Caseload Increase - This decision package requests $28,880 general fund and $106,708 federal funds for the biennium to continue funding for client benefits and administrative costs that were authorized by the 1999 legislature. The fiscal 2000 base does not include a full year of costs because the two counselor positions were not filled until midway through the year and projected caseload increases will increase benefit costs.

DP 66 - Fully Fund MDC Population Growth - This decision package requests $2.8 million general fund for the biennium to fund services at the MDC. Personal service and operating costs were reduced in the fiscal 2001 appropriation because 20 individuals were moved to community services, which was to have reduced the population at MDC. However, the population at MDC has not decreased as expected. As of June 2000, MDC had a population of 85, only 3 less than the population of 88 for September 1998, which was prior to moving 20 individuals to community services. This decision package also requests funding for overtime and holidays worked, costs that are not included in the base budget.

LFD ISSUE

Please see discussion of the refinancing proposal including in the funding section of the narrative.

DP 68 - Annualize DSD Base Year Increases - This decision package requests $59,069 general fund and $146,226 federal funds for the biennium to fund increased rent costs and moving expenses for the field offices.

LFD ISSUE

Several divisions within the agency maintain field offices. The legislature may wish to apply a uniform inflation factor to these costs. Please refer to the agency narrative for additional information on rent costs.

DP 71 - Independent Living Older Blind Base - This decision package requests $12,500 general fund for the biennium to cover the state match needed for the Independent Living Older Blind grant. The federal fiscal 2000 grant award of $205,000 requires general fund match of 10.9 percent. The purpose of this grant is to assist elderly who are blind or visually impaired with services or adaptive equipment necessary to assist them in continuing to live in their homes.

New Proposals										
	Fiscal 2002					Fiscal 2003				
Prgm	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 112 - DDP Federal Authority										
10	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
DP 113 - DDS Workload increase										
10	2.00	0	0	79,201	79,201	2.00	0	0	79,481	79,481
DP 119 - DD Provider Wage Parity										
10	0.00	835,836	0	805,221	1,641,057	0.00	2,500,534	0	2,422,636	4,923,170
DP 128 - VR Provider Rate Increase										
10	0.00	61,085	0	108,324	169,409	0.00	123,820	0	219,572	343,392
DP 141 - DDP Waiting List Reduction										
10	0.00	1,035,965	0	1,203,630	2,239,595	0.00	1,034,389	0	1,211,747	2,246,136
DP 192 - DDP Crisis Capacity										
10	0.00	25,000	0	0	25,000	0.00	25,000	0	0	25,000
Total	**2.00**	**$1,957,886**	**$0**	**$3,196,376**	**$5,154,262**	**2.00**	**$3,683,743**	**$0**	**$4,933,436**	**$8,617,179**

New Proposals

DP 112 - DDP Federal Authority - This decision package requests $2.0 million federal funds for the biennium, so that the Developmental Disabilities Program (DDP) may pursue additional federal revenue. Historically DDP has received an appropriation and been authorized to pursue additional federal funds as long as the federal funding did not require a commitment of general fund.

LFD ISSUE

The legislature may wish to:

1) Include language in HB 2 that allows DDP to pursue additional federal funds if no current or future commitment of general fund is required; or
2) Direct the division to utilize the budget amendment process to request additional federal authority in the event new or additional sources of federal funds are identified.

DP 113 - DDS Workload increase - This decision package requests $158,682 federal funds for the biennium to fund an additional 2.0 FTE disability claims managers in the Disability Determination Services Program. These positions would be used to process a projected increase in workload of a 1,000 cases each year of the 2003 biennium.

DP 119 - DD Provider Wage Parity - This decision package requests approximately $3.3 million general fund and $3.2 million federal funds to increase wages and benefits for direct service staff working in private nonprofit corporations. This represents an increase of 5.0 percent in fiscal 2002 and an additional 10.0 percent increase in fiscal 2003.

LFD ISSUE

Please refer to the agency narrative for information on provider rate and wage increases.

DP 128 - VR Provider Rate Increase - This decision package requests $184,905 general fund and $327,896 federal funds for the biennium to fund a 2.7 percent per year provider rate increase for providers of vocational rehabilitation services.

LFD ISSUE

Please refer to the agency narrative for information on provider rate and wage increases.

DP 141 - DDP Waiting List Reduction - This decision package requests $2.1 million general fund and $2.4 million federal funds for the biennium to provide services to 42 individuals with developmental disabilities who are on the waiting list for services. Of the 42 individuals, an additional 38 adults and four children would receive services including 24 individuals with chronic health care needs. Five of those receiving services would move from MDC and EHSC.

LFD ISSUE

This decision package assumes that 42 individuals will begin receiving services July 1, 2001. Because the division will not know what funding is available to them until the legislature adjourns in late April, the division will have approximately 60 days to complete plans to serve these 42 individuals. Due to the short period of time, the LFD questions the division's ability to have service implemented for 42 individuals on July 1, 2001. The legislature may wish to phase-in funding and implementation of this decision package over the biennium. While the department did not specifically request this decision package as a means to comply with the Olmstead decision, the court did indicate that a waiting list that moved at a reasonable pace could demonstrate compliance with ADA requirements that the Olmstead case was based on.

The division proposed and received funding during the 1999 biennium to serve 25 individuals with chronic health care needs from the waiting list. The department stated that due to an increase in commitments to MDC there weren't sufficient funds to provide services for the 25 individuals. Please see discussion of the refinancing proposal including in the funding section of the narrative.

DP 192 - DDP Crisis Capacity - This decision package requests $50,000 general fund for the biennium to provide services in emergency situations involving individuals with developmental disabilities.

LFD ISSUE	If the legislature does not wish to include this in the base budget for the next biennium, the appropriation could be designate as a one-time-only appropriation. Or, the legislature may wish to direct the division to designate $50,000 within existing appropriations for this purpose.

Language Recommendations
The following language is recommended for HB2:
"The disability services division is authorized to pursue up to $2.0 million federal funding in the biennium to enhance and improve services to persons with developmental disabilities. These additional federal funds may be expended by the division for services as long as those actions do not require or commit the state to additional general fund expenditures beyond the amount appropriated for the 2003 biennium by the legislature for the developmental disabilities community."

Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	160.04	9.00	4.50	173.54	18.00	7.00	185.04	185.04
Personal Services	5,481,572	383,624	161,398	6,026,594	663,633	247,150	6,392,355	12,418,949
Operating Expenses	2,745,808	117,188	97,500	2,960,496	192,982	71,250	3,010,040	5,970,536
Equipment	39,141	27,983	12,500	79,624	27,983	7,500	74,624	154,248
Grants	6,243,240	223,752	1,066,141	7,533,133	223,752	1,083,575	7,550,567	15,083,700
Benefits & Claims	145,636,617	12,005,722	7,567,359	165,209,698	14,292,428	14,800,812	174,729,857	339,939,555
Transfers	0	0	0	0	0	0	0	0
Debt Service	4,403	0	0	4,403	0	0	4,403	8,806
Total Costs	**$160,150,781**	**$12,758,269**	**$8,904,898**	**$181,813,948**	**$15,400,778**	**$16,210,287**	**$191,761,846**	**$373,575,794**
General Fund	41,427,657	3,079,173	1,558,161	46,064,991	3,482,356	2,722,517	47,632,530	93,697,521
State/Other Special	2,790,322	288,331	667,793	3,746,446	476,222	1,547,437	4,813,981	8,560,427
Federal Special	115,932,802	9,390,765	6,678,944	132,002,511	11,442,200	11,940,333	139,315,335	271,317,846
Total Funds	**$160,150,781**	**$12,758,269**	**$8,904,898**	**$181,813,948**	**$15,400,778**	**$16,210,287**	**$191,761,846**	**$373,575,794**

Program Description

The Senior and Long-Term Care Division plans, administers, and provides publicly-funded long-term care services for Montana's senior citizens and persons with physical disabilities. In addition, the division provides education and support regarding aging and long-term care issues to Montanans of all ages. The division makes services available through six major programs. 1) The Office on Aging oversees contracts with Area Agencies on Aging to provide meals, transportation, public education, information and assistance, and other services. 2) The Medicaid Community Services Program pays for in-home, assisted living, and other community-based services to Medicaid eligible individuals as an alternative to nursing home care. 3) The Medicaid Nursing Facility Program pays for care to Medicaid eligible individuals in Montana's 98 nursing homes. 4) Skilled nursing facility care is provided to veterans at the 90-bed Montana Veterans' Home (MVH) in Columbia Falls and the 80-bed Eastern Montana Veterans' Home in Glendive. 5) The State Supplemental Payments Program pays for a portion of the room and board costs for individuals eligible for supplemental security income payments and residing in designated residential care facilities. 6) The Adult Protective Services Program investigates abuse and neglect of the elderly and disabled and provides some support benefits.

Biennium Comparison

Table 22-01 compares the 2001 biennium expenditures and appropriation to the 2003 biennium Executive Budget request for the Senior and Long-Term Care Division. The 2003 biennium request is $42 million higher than the fiscal 2000 base budget expenditures and the fiscal 2001 appropriation. The biennial increase is $12 million total funds and $1.2 million general fund lower than the Program Proposed Budget table that compares the 2003 biennium request to base budget expenditures. The fiscal 2001 appropriated amounts, which are not reflected in the Program Proposed Budget table, include increases in provider rates, growth in Medicaid caseloads, expansion of the Medicaid funded community waiver services, and increases in adult protective services benefits.

Table 22-01
2001 Biennium Compared to 2003 Biennium
Senior and Long-Term Care Division

Budget Item/Fund	2001 Biennium	2003 Biennium	Change	Percent of Total
Personal Services	$ 11,109,866	$ 12,418,949	$ 1,309,083	3.1%
Operating	6,335,654	5,970,536	(365,118)	-0.9%
Equipment	92,728	154,248	61,520	0.1%
Grants	11,985,988	15,083,700	3,097,712	7.4%
Benefits/Claims	302,102,557	339,939,555	37,836,998	90.2%
Debt Service	7,097	8,806	1,709	0.0%
Total Costs	$331,633,890	$373,575,794	$41,941,904	100.0%
General Fund	$ 85,430,125	$ 93,697,521	$ 8,267,396	19.7%
State Special	5,625,195	8,560,427	2,935,232	7.0%
Federal Funds	240,578,570	271,317,846	30,739,276	73.3%
Total Funds	$331,633,890	$373,575,794	$41,941,904	100.0%
Percent Increase			11.2%	

Benefits are 91 percent of the 2003 biennium division budget and also comprise the most significant increase (90 percent). Grants rise 7 percent due largely to an increase in federal funds available under the Older Americans Act. Personal services increase 3 percent, due mostly to the addition of a 15-bed special care unit at MVH. Operating costs show a slight reduction due to lower than appropriated expenditure levels at the veterans' homes.

The balance of the 2003 biennium budget discussion is based on amounts included in tables that compare the 2003 biennium request to the fiscal 2000 base. Present law adjustments include the incremental increases between fiscal 2000 expenditures and the fiscal 2001 appropriation.

Program Narrative

The 2003 biennium division budget is $53.4 million, including $9.4 million general fund, higher than the fiscal 2000 base expenditure level. Present law adjustments add $28.2 million over the biennium and new proposals add $25.2 million.

The decrease in Medicaid benefit matching rates from the fiscal 2000 base budget mask general fund increases of $4 million over the 2003 biennium. The total general fund change of individual present law adjustments is $4 million higher for this division than reflected in the "Program Proposed Budget" table. The decrease in the state matching rate was included as a funding adjustment to the adjusted base budget rather than as a present law adjustment for legislative consideration.

The biennial cost of significant budget increases are:

?? $24.7 million, including $7.9 million general fund, for Medicaid service caseload and annualization of 2001 biennium provider rate increases to continue current level services;

?? $17.6 million, including $3.2 million general fund, for 2003 biennium direct care worker wage and provider rate increases;

?? an increase of $940,000 general fund and a reduction in federal funds by $281,000 for adjustments to Medicaid funded services that correct accounting system errors;

?? a new proposal to increase the Medicaid Community Based Waiver by 0.5 FTE and $2.9 million total funds ($810,000 general fund);

?? $2 million federal funds for potential match of service costs that could be partially supported by federal Medicaid funds;

?? $1.6 million in additional federal funding under the Older Americans Act;

?? 18.0 FTE and $1.1 million for the new Montana Veterans' Home special care unit and other operating cost increases for veterans' homes; and

?? 6.5 FTE and $1.2 million total funds ($187,000 general fund) for adult protective services, prevention and abuse education activities, a guardianship program, and contracts to provide services to adult protective services clients.

Table 22-02 shows the fiscal 2000 base budget compared to the Executive Budget request by major service. Medicaid services are the largest component of the budget comprising 91 percent of the division fiscal 2003 request.

Table 22-02
Senior and Long-Term Care Division Base and 2003 Beinnium Budget Request by Major Function and Benefit

Function and Benefits and Grants	Fiscal 2000 Base Budget General Fund	State Special	Federal	Total	Fiscal 2002 Budget Request General Fund	State Special	Federal	Total	Fiscal 2003 Budget Request General Fund	State Special	Federal
Division Administration	$ 210,697	$ 111,684	$ 114,891	$ 437,272	$ 233,027	$ 122,034	$ 128,344	$ 483,405	$ 236,577	$ 123,000	$ 131,063
Medicaid Services	37,853,981	-	108,450,157	146,304,138	41,885,694	331,450	123,444,439	165,661,583	43,285,585	1,195,700	130,646,231
Aging Services	1,896,886	-	4,921,835	6,818,721	2,302,362	108,750	5,761,062	8,172,174	2,455,314	25,375	5,732,091
Veterans' Homes	-	2,678,638	2,401,328	5,079,966	-	2,956,619	2,516,852	5,473,471	-	3,143,544	2,650,121
Adult Protective Srvcs	1,466,093	-	44,591	1,510,684	1,643,908	227,593	151,814	2,023,315	1,655,054	326,362	155,829
Total Division	41,427,657	2,790,322	115,932,802	160,150,781	46,064,991	3,746,446	132,002,511	181,813,948	47,632,530	4,813,981	139,315,335
Percent of Total	25.9%	1.7%	72.4%	100.0%	25.3%	2.1%	72.6%	100.0%	24.8%	2.5%	72.7%
Compounded Annual Rate of Change from Fiscal 2000 Base					5.4%	15.9%	6.7%	6.5%	4.8%	19.9%	6.3%
Benefits/Grants											
Medicaid											
Nursing Homes	28,236,227	0	70,536,028	98,772,255	28,651,057	331,450	78,853,123	107,927,522	29,594,087	1,195,700	82,554,033
Home Based Services	5,112,868	0	13,233,607	18,346,475	6,931,378	0	18,626,799	25,558,177	7,532,283	0	20,385,742
Waiver Services	3,853,334	0	9,999,647	13,852,981	5,541,042	0	14,890,529	20,431,571	5,891,550	0	15,945,180
Institutions	0	0	13,849,204	13,849,204	0	0	10,270,766	10,270,766	0	0	10,554,252
Aging Grants	978,962	0	4,385,289	5,364,251	1,288,855	0	5,319,203	6,608,058	1,376,289	0	5,249,203
Protective Services	16,616	0	0	16,616	92,503	0	100,206	192,709	92,020	0	100,689
State Supplement	803,000	0	0	803,000	878,953	0	0	878,953	934,321	0	0
Veterans Services	-	-	875,075	875,075	0	0	875,075	875,075	0	0	875,075
Total	$ 39,001,007	$ 0	$ 112,878,850	$ 151,879,857	$ 43,383,788	$ 331,450	$ 128,935,701	$ 172,742,831	$ 45,420,549	$ 1,195,700	$ 135,664,175
Percent of Total	25.7%	0.0%	74.3%	100.0%	25.1%	0.2%	74.6%	100.0%	24.9%	0.7%	74.4%
Compounded Annual Rate of Change from Fiscal 2000 Base					5.5%	n/a	6.9%	6.6%	5.2%	n/a	6.3%

The single largest division expenditure is for nursing homes services, accounting for 62 percent of the total fiscal 2003 budget. Home based Medicaid services are 15 percent of the fiscal 2003 budget request, while Medicaid waiver services account for 12 percent. Aging grants account for 4 percent of the total fiscal 2003 budget request. Veterans services and adult protective services each comprise 1 percent of the fiscal 2003 budget.

Funding

The Senior and Long-Term Care Division is funded primarily by federal funds - about 73 percent over the 2003 biennium (see Table 22-03). General fund declines from 26 percent of base budget funding to 25 percent of the executive request. State special revenue increases from 1.7 percent of fiscal 2000 costs to 2.5 percent of the fiscal 2003 budget.

General fund pays the state match for Medicaid eligible costs, the majority of protective services for adult and disabled persons, and a portion of aging services administrative and benefits costs.

Cigarette tax revenue (11.11 percent of total tax) and Medicaid reimbursement account for the majority of state special revenue and support veterans services, including the two veterans' homes. There are two new state special revenue funding sources included in the division budget request: 1) lien and estate revenue collections; and 2) interest from the tobacco tax settlement proceeds trust fund, which was approved by voters in the November 2000 election. Table A-04 in the DPHHS overview shows the income estimated to be available from the trust and the 2003 biennium budget request from trust income.

Table 22-03
Senior and Long-Term Care Division Funding

Fund Source	Fiscal 2000 Actual	Executive Request 2002	2003	Percent of Total
General Fund	$ 41,427,657	$46,064,991	$47,632,530	24.8%
Percent of Total Funds	25.9%	25.3%	24.8%	
State Special Revenue				
Private Ins./Medicaid Reimb	$1,842,743	$2,024,176	$2,157,633	1.1%
Vets - Int./Income Lease	0	5,000	5,000	0.0%
Cigarette Tax Revenue	947,579	1,049,477	1,103,911	0.6%
Lien/Estate Recovery	0	108,750	25,375	0.0%
Over $600,000 Lien/Estate	0	227,593	326,362	0.2%
Vets Canteen	0	0	0	0.0%
Tobacco Interest/Trust Fnd	0	331,450	1,195,700	0.6%
Match - Private Funds	0	0	0	0.0%
Subtotal SSR	$2,790,322	$3,746,446	$4,813,981	2.5%
Percent of Total Funds	1.7%	2.1%	2.5%	
Federal Funds				
EMVH V-A Reimbursement	$875,075	$875,075	$875,075	0.5%
Vets V-A Reimbursement	1,366,762	1,450,318	1,583,148	0.8%
Vets Domiciliary Care	159,491	191,459	191,898	0.1%
Elderly Feeding	621,641	649,639	649,639	0.3%
Elder Abuse	10,066	23,660	23,660	0.0%
Ombudsman Activity	34,146	42,237	42,237	0.0%
Preventive Health	78,806	80,398	80,398	0.0%
Aging Supp. & Training	1,491,560	2,244,324	2,245,004	1.2%
Aging Meals	2,395,708	2,520,975	2,521,423	1.3%
NAPIS Training - 100%	1,966	24,828	24,828	0.0%
Health Info. Counseling	106,650	167,094	168,884	0.1%
Alzheimer's Demonstration	192,125	0	0	0.0%
Medicaid Admininstration	998,884	1,227,281	1,198,994	0.6%
Medicaid Benefits	107,587,171	122,505,223	129,710,147	67.6%
Frail Elderly	12,751	0	0	0.0%
Subtotal Federal	$115,932,802	$132,002,511	$139,315,335	72.7%
Percent of Total Funds	72.4%	72.6%	72.7%	
Total Funds	$160,150,781	$181,813,948	$191,761,846	100.0%
Increase Above Base		11.9%	16.5%	
Annual Rate of Change from 2000 Base		10.70%	6.19%	

LFD COMMENT Lien and estate revenue is the state share of Medicaid funded services recouped from estates of former Medicaid recipients. Recoupments are primarily for nursing facility services and revenue is deposited to the general fund. Beginning in the 1995 biennium when the lien and estate recovery program was implemented, the legislature appropriated an amount of lien and estate revenue above $600,000 in annual collections to use for Medicaid services. In the 1997 and 1999 biennia, the funds were appropriated in language and used for one-time expenditures to improve quality of services for nursing home residents. In the 2001 biennium, the funds were also used for one-time improvements in Medicaid funded community waiver and home based services.

LFD COMMENT The legislature may wish to review the level of federal funding for veterans services that is included in the Executive Budget, since federal appropriations for these services were not final at the time legislative staff prepared the budget analysis.

The Executive Budget includes $338,566 vacancy savings over the biennium (2.7 percent annually) in the statewide adjustment category. Vacancy savings were applied to all personal services costs, including direct care staff costs at the veterans' homes. The cost of vacancy savings is more than offset by other increases for annualization of the 2001 biennium pay plan and overtime and holiday pay and shift differential for direct care staff in the veterans' homes.

Present Law Adjustments

	Fiscal 2002					Fiscal 2003				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					211,867					242,885
Vacancy Savings					(152,643)					(153,574)
Inflation/Deflation					9,840					10,104
Fixed Costs					2,078					3,226
Total Statewide Present Law Adjustments					**$71,142**					**$102,641**
DP 24 - MVH Operating Expense Adjustments	0.00	0	48,807	0	48,807	0.00	0	48,807	0	48,807
DP 25 - MVH Special Care Unit	9.00	0	207,352	129,222	336,574	18.00	0	347,475	295,460	642,935
DP 34 - Home Based Caseload	0.00	1,167,924	0	3,173,841	4,341,765	0.00	1,545,331	0	4,228,449	5,773,780
DP 35 - Aging PLA :Provider Rate and Direct Care Increases	0.00	223,752	0	0	223,752	0.00	223,752	0	0	223,752
DP 36 - Nursing Home Caseload Increase	0.00	2,018,851	0	2,813,146	4,831,997	0.00	2,103,749	0	3,244,085	5,347,834
DP 37 - Waiver Caseload PLA	0.00	546,601	0	1,536,015	2,082,616	0.00	540,352	0	1,542,264	2,082,616
DP 77 - APS Emergency Support PLA	0.00	75,887	0	100,206	176,093	0.00	75,404	0	100,689	176,093
DP 81 - State Supplemental Caseload Increase	0.00	95,968	0	0	95,968	0.00	161,256	0	0	161,256
DP 116 - MVH Equipment	0.00	0	16,918	0	16,918	0.00	0	16,918	0	16,918
DP 141 - EMVH Equipment	0.00	0	11,065	0	11,065	0.00	0	11,065	0	11,065
DP 143 - Rent Increase for APS Field Offices	0.00	24,460	0	756	25,216	0.00	28,893	0	894	29,787
DP 145 - Leased Cars For APS Field Staff	0.00	3,589	0	111	3,700	0.00	3,589	0	111	3,700
DP 146 - Medicaid Field Staff Office Rent Costs	0.00	2,806	0	2,806	5,612	0.00	4,532	0	4,532	9,064
DP 148 - Institutions PLA	0.00	0	0	157,908	157,908	0.00	0	0	441,394	441,394
DP 198 - SABHRS Adjustments	0.00	469,810	0	(140,674)	329,136	0.00	469,810	0	(140,674)	329,136
Total Other Present Law Adjustments	**9.00**	**$4,629,648**	**$284,142**	**$7,773,337**	**$12,687,127**	**18.00**	**$5,156,668**	**$424,265**	**$9,717,204**	**$15,298,137**
Grand Total All Present Law Adjustments					**$12,758,269**					**$15,400,778**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals

	Fiscal 2002					Fiscal 2003				
Prgm	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 115 - Guardianship, APS Staff, Prevention& Education										
22	4.00	0	336,343	45,250	381,593	6.50	0	351,737	16,795	368,532
DP 120 - Personal Assistance Direct Care Wage Increase										
22	0.00	211,931	0	569,524	781,455	0.00	448,676	0	1,214,319	1,662,995
DP 121 - Nursing Home Rate Stabilization										
22	0.00	928,002	331,450	3,384,544	4,643,996	0.00	1,379,394	1,195,700	6,969,363	9,544,457
DP 129 - Provider Rate Increases										
22	0.00	168,662	0	221,761	390,423	0.00	341,386	0	454,173	795,559
DP 140 - Waiver Expansion										
22	0.50	249,566	0	632,864	882,430	0.50	553,061	0	1,460,682	2,013,743
DP 142 - Intergovernmental Transfers										
22	0.00	0	0	1	1	0.00	0	0	1	1
DP 147 - Federal Spending Authority										
22	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
DP 222 - Older Americans Act Aging Grant Increase										
22	0.00	0	0	825,000	825,000	0.00	0	0	825,000	825,000
Total	**4.50**	**$1,558,161**	**$667,793**	**$6,678,944**	**$8,904,898**	**7.00**	**$2,722,517**	**$1,547,437**	**$11,940,333**	**$16,210,287**

New Proposals

Each new proposal will be discussed in the following programs: Medicaid services; veterans services; aging services; division administration; and adult protective services.

Language Recommendations

The Executive Budget recommends the following language be added to HB 2. Each of these recommendations is reviewed with legislative staff comments in the Medicaid services program. The first item is in relation to DP 142 Intergovernmental Transfers and the second item is discussed in relationship to DP 147 "Federal Spending Authority".

"The Senior and Long-Term Care Division is authorized to pursue up to $2.0 million in federal funding over the biennium to enhance or improve division services or programs. These additional federal funds may be expended by the division on services as long as those actions do not require or commit the state to additional general fund expenditures beyond the amount appropriated for the 2003 biennium by the legislature to the division."

"The Senior and Long-Term Care Division is authorized to pursue up to $14.4 million in state special and federal funding over the biennium sufficient to increase the Medicaid rates of county affiliated nursing facilities through the intergovernmental transfers of state matching funds from counties. The additional federal funds may be expended by the division as long as those actions do not require or commit the state to additional general fund expenditures beyond the amount appropriated for the 2002 biennium by the legislature to the Senior and Long-Term Care Division."

LFD COMMENT

The proposed language does not appropriate funds to the division. If the legislature approves the executive language, it may want to change the wording to make an appropriation so that the division can spend the funds.

Sub-Program Details

Medicaid Services 01

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	17.25	0.00	0.50	17.75	0.00	0.50	17.75	17.75
Personal Services	741,306	19,502	19,805	780,613	22,833	19,868	784,007	1,564,620
Operating Expenses	739,407	(27,897)	22,500	734,010	(27,649)	22,500	734,258	1,468,268
Equipment	0	0	2,500	2,500	0	0	0	2,500
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	144,823,425	11,753,676	7,567,359	164,144,460	13,985,014	14,800,812	173,609,251	337,753,711
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	**$146,304,138**	**$11,745,281**	**$7,612,164**	**$165,661,583**	**$13,980,198**	**$14,843,180**	**$175,127,516**	**$340,789,099**
General Fund	37,853,981	2,559,693	1,472,020	41,885,694	2,882,662	2,548,942	43,285,585	85,171,279
State/Other Special	0	0	331,450	331,450	0	1,195,700	1,195,700	1,527,150
Federal Special	108,450,157	9,185,588	5,808,694	123,444,439	11,097,536	11,098,538	130,646,231	254,090,670
Total Funds	**$146,304,138**	**$11,745,281**	**$7,612,164**	**$165,661,583**	**$13,980,198**	**$14,843,180**	**$175,127,516**	**$340,789,099**

As noted in the division overview, Medicaid services comprise the largest share of the division budget - about 91 percent of the total. Changes in the Medicaid services component drive the division budget. The base budget and total Executive Budget request for each Medicaid benefit is shown in Table 22-02.

The Medicaid services budget request includes funds for reimbursement for Medicaid eligible services provided by state institutions and for support of three types of services administered by the division - nursing home services, home-based entitlement services, and community services limited by a waiver of federal Medicaid regulations. The present law adjustment for each of these services is composed of two components: 1) a caseload adjustment that accounts for increases in the number of persons eligible and annualization of fiscal 2001 rate increases approved by the 1999 legislature; and 2) an adjustment due to entries in the statewide accounting system that misstate the base budget for these services.

DP 198 SABHRS Adjustments affects all appropriation requests for all Medicaid services. It includes net adjustments that increase general fund about $0.9 million over the biennium and reduce federal funds by $0.3 million over the biennium. However, there are significant offsetting changes included in the adjustment. Table 22-04 shows the allocation of the adjustments among Medicaid funded services.

Table 22-04
Allocation of DP 198 Funding Among Programs
Senior and Long-Term Care Medicaid Services

Service	General Fund	Federal Funds	Total
Home Based Services	$565,956	$1,485,642	$2,051,598
Waiver Services	663,850	1,716,847	2,380,697
Nursing Homes	(759,996)	393,183	(366,813)
Institutional Reimbursement	0	(3,736,346)	(3,736,346)
Total Annual Change	$469,810	($140,674)	$329,136

In order to determine the total present law adjustment for each service, an amount from DP 198 SABHRS Adjustments must be added to another present law adjustment.

LFD ISSUE Correcting budgets for accounting errors in the base year is more germane to program budgets that are driven from base expenditures than in budgets (such as Medicaid funded programs) that are based on other factors, such as the number of persons eligible for services, utilization, inflation, and state matching requirements. The present law adjustments for these services may be more easily understood if the legislature considers all present law adjustments for Medicaid funded programs in a single decision packages relative to each Medicaid funded service instead of funding part of the present law adjustment in one decision package and the remainder in other decision packages. Additionally, the base adjustments in DP 198 do not reflect the change in state Medicaid matching rates for the 2003 biennium, which introduces a level of complexity in funding other present law adjustments that could result in errors.

The incremental change included in DP 198 is noted in the discussion of the total present law adjustment for each Medicaid service. The legislature can include the amount from DP 198 with the remaining present law adjustment for each Medicaid service if it chooses.

Present Law Adjustments

	Fiscal 2002					Fiscal 2003				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					40,952					44,386
Vacancy Savings					(21,450)					(21,553)
Inflation/Deflation					235					483
Fixed Costs					(17,878)					(17,878)
Total Statewide Present Law Adjustments					**$1,859**					**$5,438**
DP 34 - Home Based Caseload	0.00	1,167,924	0	3,173,841	4,341,765	0.00	1,545,331	0	4,228,449	5,773,780
DP 36 – Nursing Home Caseload Increase	0.00	2,018,851	0	2,813,146	4,831,997	0.00	2,103,749	0	3,244,085	5,347,834
DP 37 – Waiver Caseload PLA	0.00	546,601	0	1,536,015	2,082,616	0.00	540,352	0	1,542,264	2,082,616
DP 148 - Institutions PLA	0.00	0	0	157,908	157,908	0.00	0	0	441,394	441,394
DP 198 - SABHRS Adjustments	0.00	469,810	0	(140,674)	329,136	0.00	469,810	0	(140,674)	329,136
Total Other Present Law Adjustments	**0.00**	**$4,203,186**	**$0**	**$7,540,236**	**$11,743,422**	**0.00**	**$4,659,242**	**$0**	**$9,315,518**	**$13,974,760**
Grand Total All Present Law Adjustments					**$11,745,281**					**$13,980,198**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 34 - Home Based Caseload - The executive requests $10.1 million over the biennium, including $2.7 million general fund, for the Medicaid Home Health, Personal Assistance and Hospice entitlement programs, to adjust for projected caseload growth and 1 percent provider rate and 3 percent direct care wage increases approved by the 1999 legislature.

Personal Assistance services increased by about 12 percent between fiscal 1998 and fiscal 1999, and early projections indicated that the program was in danger of significantly exceeding its appropriation in fiscal 2000. In an effort to keep expenditures within the appropriation and avoid across the board cuts, the division entered into a $356,025 contract (funded 25 percent general fund and 75 percent federal funds) to conduct prior authorization for Medicaid personal assistance services. DPHHS is projecting that total expenditures for these services in fiscal 2001 will be at the level appropriated by the legislature and states that any additional savings that occur as a result of the contract will be used to enhance personal assistance services. Caseload growth of about 5 percent per year is projected for the coming biennium, including the cost of the contract.

LFD ISSUE

There are three issues related to Medicaid funded home based services: 1) expansion of the community based services waiver above the level appropriated by the 1999 legislature; 2) total expended for direct care worker wage increases in fiscal 2000; and 3) the total present law adjustment for these services.

Expansion of Community Based Services Waiver

The 1999 legislature approved an expansion of the community based services waiver that was anticipated to cost $1.5 million annually once it was fully implemented in fiscal 2003. The Executive Budget includes $2.1 million for annualization of the expansion, a $600,000 increase. The 2001 biennium cost increase above the appropriation was funded from savings in other Medicaid services, due to lower caseload growth and management actions to reduce cost growth. Had the division not expanded waiver services above the level appropriated by the legislature, the savings would have been available to offset the DPHHS 2001 biennium supplemental appropriation and would have resulted in a lower 2003 biennium budget request for waiver services.

Total Expended for Direct Care Worker Wage Increases

The 1999 legislature approved the executive request to appropriate funds for direct care worker wage increases in the 2001 biennium and established conditions for the appropriation in HB 2. Those conditions are:

> "The department shall distribute funds in items [direct care worker wage increases] in a way that provides reasonable assurance that the funds are used solely for direct care wage and benefit increases. Not all providers must receive the same rate of increase each year of the biennium. Funds appropriated in items [direct care worker wage increases] must be used for direct care worker wage increases and family foster care rate increases. Funds in items [direct care worker wage increases] may not be used to fund other programs."

The division allocated direct care worker wage increases for home based services in fiscal 2000 based on the percent of direct care worker services in fiscal 1999. Agencies receiving the allocation documented wage increases received by direct care workers (examples of which include personal assistance workers, rehabilitation aides, and respite workers). The division transferred some of the appropriation for direct care worker wage increases in community waiver services to the home-based services program.

The appropriation was based on the estimated cost to fund a 25 cent per hour increase in fiscal 2000 and another 25 cent per hour increase (a total of 50 cent per hour) in fiscal 2001. The legislature added language to HB 2 establishing conditions for the direct care worker wage increase appropriations. In fiscal 2000, direct care workers for home based services received between 37 and 39 cents per hour depending on the type of work they did. This increase is within the appropriation condition established that not all providers must receive the same rate of increase each year.

Legislative staff asked how much of the direct care worker wage increase was expended in fiscal 2000 for home based services. The division will have the data available for legislative consideration.

Total Present Law Adjustment for Home Based Services

Two separate present law adjustments must be added together to determine the total present law adjustment for home based services: DP 34 Home Based Caseload; and DP 198 SABHRS Adjustments. DP 198 is the net of several adjustments for Medicaid funded services in the division and it contains $4.2 million, including $1.3 million general fund, over the biennium for Medicaid funded home based services.

LFD ISSUE CONTINUED

It may clearer if the legislature were to include all present law adjustments within DP 34 for home based services, creating a net present law increase of $14.9 million total funds over the biennium, including $3.9 million general fund.

Table 22-05 shows the base level expenditures recorded in the budget system, the statewide accounting system adjustment, and the marginal present law adjustment for this benefit that are included in the Executive Budget. Medicaid caseload estimates will be updated for legislative consideration during the session.

Table 22-05
Home Based Medicaid Funded Services
Executive Present Law Budget

Component/Funding Agency Request	Fiscal 2000 Base Budget	Fiscal 2002 Request	Fiscal 2003 Request
Budget Component			
Base Expenditures	$18,346,475	$18,346,475	$18,346,475
DP 34 Home Based Caseload	0	4,341,765	5,773,780
DP 198 SABHRS Adjustment	0	2,051,598	2,051,598
Total Base/Request	$18,346,475	$24,739,838	$26,171,853
General Fund			
Base Expenditures	$5,112,868	$4,975,564	$4,949,879
DP 34 Home Based Caseload	0	1,167,924	1,545,331
DP 198 SABHRS Adjustment	0	565,956	565,956
Total General Fund Base/ Request	$5,112,868	$6,709,444	$7,061,166
General Fund as a Percent of Total	27.87%	27.12%	26.98%

DP 36 - Nursing Home Caseload Increase - The executive requests $10.2 million for the biennium, including $4.1 million general fund, for the Medicaid nursing home program to adjust for federal match rate changes, projected caseload growth, and to annualize the 1 percent provider rate increase and 3 percent direct care wage increase approved in fiscal 2001. DPHHS projects that total nursing home expenditures in fiscal 2001 will be at the level appropriated by the legislature. DPHHS projects caseload growth to rise 0.25 percent in fiscal 2002 and 0.5 percent in fiscal 2003.

LFD ISSUE

There are three issues related to Medicaid funded nursing home services that the legislature may wish to consider: 1) the total present law adjustment for nursing home services; 2) 2003 biennium caseload projections; and 3) use of the restricted appropriation to fund direct care worker wage increases in the 2001 biennium.

Total Present Law Adjustment

As with home based services, two present law adjustments must be added together to determine the total executive request for nursing home services: DP 36 Nursing Home Caseload Adjustment; and DP 198 SABHRS Adjustments. DP 198 is the net of several adjustments for Medicaid funded services in the division and it contains a $1.5 million biennial general fund reduction and an $800,000 biennial federal fund increase for Medicaid funded nursing home services. It may be clearer if the legislature were to include all present law adjustments for nursing home services within DP 36, creating a net present law increase of $8.8 million total funds over the biennium, with a net reduction of about $618,000 general fund. General fund shows a net reduction due to accounting adjustments and due to the reduction of state matching rates for federal Medicaid funds. Table 22-06 shows the base level expenditures recorded in the budget system, the accounting adjustment, and the marginal present law adjustment for nursing home services that are included in the Executive Budget.

LFD ISSUE CONTINUED

Table 22-06
Nursing Home Medicaid Funded Services
Executive Present Law Request

Component/Funding	Fiscal 2000 Base Budget	Fiscal 2002 Request	Fiscal 2003 Request
Total Funds			
Base Expenditures	$98,726,449	$98,726,449	$98,726,449
Adjust for Nurse Aide Exp.	(27,500)	(350,000)	(350,000)
DP 16 Nursing Home Caseload	0	4,831,997	5,347,834
DP 198 SABHRS Adjustment	0	(366,813)	(366,813)
Total Base/Request	$98,698,949	$102,841,633	$103,357,470
General Fund			
Base Expenditures	$28,213,324	$26,809,041	$26,719,370
Adjust for Nurse Aide Exp.	(13,750)	(175,000)	(175,000)
DP 16 Nursing Home Caseload	0	2,018,851	2,103,749
DP 198 SABHRS Adjustment	0	(759,966)	(759,966)
Total General Fund Base/ Request	$28,199,574	$27,892,926	$27,888,153
General Fund as a Percent of Total	28.57%	27.12%	26.98%

Nursing Home Caseload Projections

The cost of nursing home services is determined largely by two variables: the daily cost and the number of services or bed days.

Table 22-07 shows the historic number of bed days and cost per day from fiscal 1995 through legislative staff projections in fiscal 2003.

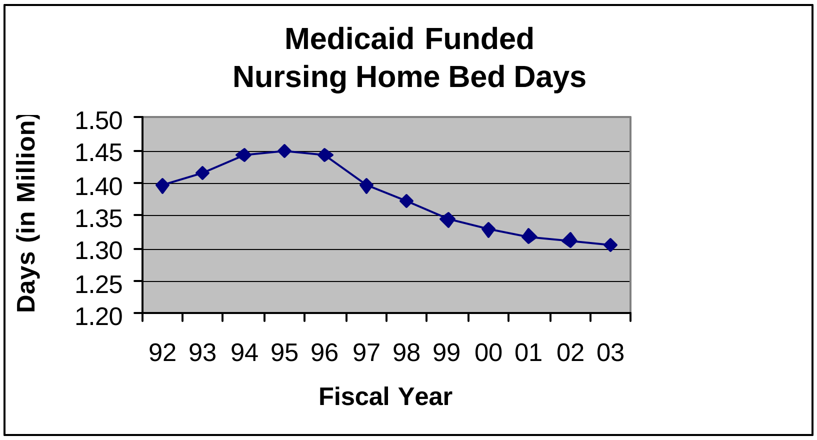
Table 22-07
Actual and LFD Estimated Nursing Home Medicaid Rate, Bed Days, and Annual Rate of Change
Fiscal Years 1995 Through 2003

Medicaid Rate, Bed Days, % Change Executive Estimate	Actual FY95	Actual FY96	Actual FY97	Actual FY98	Estimated FY99	Estimated FY00	Estimated FY01	Estimated FY02	Estimated FY03
Medicaid Rate*	$63.97	$66.21	$65.66	$69.43	$71.68	$74.26	$76.78	$76.78	$76.78
Bed Days	1,450,106	1,443,975	1,395,590	1,372,552	1,343,823	1,329,153	1,319,185	1,312,589	1,306,026
Annual Change		-0.4%	-3.4%	-1.7%	-2.1%	-1.1%	-0.7%	-0.5%	-0.5%
Compounded Rate of Change			-1.90%	-1.82%	-1.88%	-1.73%	-1.56%	-1.41%	-1.30%
Executive Budget Request								$102,841,633	$103,357,470
Legislative Staff Estimate								$100,780,572	$100,276,669
Legislative Staff Estimate Over (Under) Executive Request								($2,061,061)	($3,080,801)
Legislative Staff General Fund Over (Under) Executive Request								($558,960)	($831,200)

*The Medicaid rate does not include the portion of costs that are paid by nursing home residents, which is estimated to be about $20.00 per day in the 2001 biennium.

LFD ISSUE CONTINUED

Chart 22-01 shows Medicaid funded nursing home bed days from fiscal 1992 through the legislative staff projections in fiscal 2003. Nursing home bed days began to decline in fiscal 1995 due to a number of factors including increased community and home-based services that allow persons to remain in their own home or other services, such as assisted living.



Legislative staff estimates that nursing home bed days will continue to decline throughout the 2003 biennium at rates of 0.5 percent annually. In comparison, the Executive Budget projects a slight increase in nursing home bed days of 0.25 percent in fiscal 2002 and 0.5 percent in fiscal 2003. Legislative staff estimates are $1.4 million general fund and $5.1 million total funds lower over the 2003 biennium than the Executive Budget request.

Legislative staff will update nursing home projections for consideration during the legislative session. Projections may change as more cost data for fiscal 2001 becomes available.

Direct Care Worker Wage Increases

The 1999 legislature appropriated $8.7 million total funds, including $2.4 million general fund, over the 2001 biennium to provide wage increases to direct care workers in nursing homes. The legislature made the appropriation for direct care worker wage increases in an appropriation separate from other program appropriations, restricted the use of the appropriation, and added conditions to the appropriation in HB 2. Those conditions are:

> "The department shall distribute funds in items [direct care worker wage increases] in a way that provides reasonable assurance that the funds are used solely for direct care wage and benefit increases. Not all providers must receive the same rate of increase each year of the biennium. Funds appropriated in items [direct care worker wage increases] must be used for direct care worker wage increases and family foster care rate increases. Funds in items [direct care worker wage increases] may not be used to fund other programs."

The direct care worker wage increase was calculated to equal and was paid at a $2.14 per day increase in the daily rate for each Medicaid eligible day of service. The department estimated the number of Medicaid funded bed days that each Medicaid nursing home provider would receive based on historic data and then projected the maximum amount that each provider could expect from the direct care worker wage increase appropriation. Nursing homes submitted plans indicating how the increase for direct care worker wages would be used. If a nursing home billed for fewer days of care than the department projected, the nursing home did not collect the entire amount of the increase for direct care worker wage increases.

Paid claims as of the end of October 2000 indicate that 1,329,153 bed days of care were provided in the Medicaid nursing home program. Based on a payment of $2.14 per day, $2.84 million would have been expended for direct care worker wage increases, leaving a balance of about $14,000 total funds ($4,000 general fund) in the restricted appropriation. However, the entire appropriation was expended. If nursing home caseloads continue to decline, the expected reversion in fiscal 2001 could approach $100,000, which includes $27,150 general fund.

LFD ISSUE CONTINUED

The amount of the unexpended appropriation in fiscal 2000 is minor in relation to total DPHHS expenditures and the amount of general fund reverted by the Senior and Long-Term Care Division ($311,000). However, the issue of expenditure of restricted appropriation authority for uses unrelated to the restriction is significant. Such management actions violate statute. The appropriation subcommittee may wish to refer this issue to the Legislative Auditor for review in the financial audit.

DP 37 - Waiver Caseload PLA - The Executive Budget includes $4.2 million for the biennium, including $1 million general fund, to adjust for match rate changes, and fund a provider rate increase, direct care wage increase and expanded services to persons from the waiting list that were appropriated to the Medicaid Community Waiver Program for fiscal 2001. The legislature approved a 1 percent provider rate increase and a direct care wage increase in fiscal 2001 that are not included in the base budget expenditures. In addition, $2.4 million in annualized expansion of waiver services was approved and is not fully annualized. In fiscal 2001, consistent with the direction of the Olmstead Supreme Court decision, the division developed services for 28 additional nursing home residents on the waiver waiting list through a transfer of $500,000 in savings from the home health program.

LFD ISSUE

There are two issues related to Medicaid waiver services: 1) use of the restricted appropriation to fund direct care worker wage increases in the 2001 biennium; and 2) the total present law adjustment for waiver services.

Direct Care Worker Wage Increases

A portion of the appropriation for wage increases for direct care workers in the Medicaid Community Based Waiver was transferred to the home based program. After that transfer, DPHHS staff estimated that about $16,000 appropriated for direct care worker wages was not expended. The estimate was based on the number of hours of service and a 37-cent per hour wage increase in fiscal 2000.

The restrictions accompanying the appropriation for direct care worker wage increases required funds to be spent for wage increases and prohibited expenditures for other programs. The legislature could consider referring this issue to the Legislative Auditor. Since the appropriation was fully expended, the conditions of the appropriation were violated.

Total Present Law Adjustment

Like other Medicaid funded services in this division, two present law adjustments must be added together to determine the total present law increase for waiver services: DP 37 Waiver Caseload PLA; and DP 198 SABHRS Adjustments. Table 22-08 shows the net present law increase when both adjustments are considered - $8.9 million total funds and $2.2 million general fund. It may be clearer if both adjustments were included as a single change in DP 37 Waiver Caseload PL.

Table 22-08
Community Waiver Medicaid Funded Services
Executive Present Law Request

Component/Funding	Fiscal 2000 Base Budget	Fiscal 2002 Request	Fiscal 2003 Request
Budget Component			
Base Budget	$13,852,981	$13,852,981	$13,852,981
DP 37 Waiver Caseload	0	2,092,870	2,092,870
DP 198 SABHRS Adjustment	0	2,380,697	2,380,697
Total Base/Request	$13,852,981	$18,326,548	$18,326,548
General Fund			
Base Budget	$3,858,461	$3,759,709	$3,740,301
DP 37 Waiver Caseload	0	546,601	540,352
DP 198 SABHRS Adjustment	0	663,850	663,850
Total General Fund Base/ Request	$3,858,461	$4,970,160	$4,944,503
General Fund as a Percent of Total	27.85%	27.12%	26.98%

DP 148 - Institutions PLA - The department requests $599,302 in federal funding for the biennium for the federal share of projected Medicaid nursing home services reimbursement to the Montana Developmental Center Eastmont Human Services Center and the Montana Veterans' Home. This request is for the federal spending authority necessary to make Medicaid payments to these facilities. The required state matching funds are paid from each facility's appropriation.

LFD ISSUE

Two present law adjustments for institutional reimbursement must be combined to determine the total present law adjustment: DP 148 Institutions PLA; and DP 198 SABHRS Adjustments.

The SABHRS adjustments include a $3.7 million annual reduction to Medicaid funded institutional reimbursements. It may be clearer if the legislature were to include this reduction in the present law adjustment for institutional services, creating a net present law reduction of $7 million in federal funds over the biennium. Table 22-09 shows the net present law adjustment needed for institutional reimbursement.

Table 22-09
Insitutional Reimbursement for Medicaid Funded Services
Executive Present Law Request

Component/Funding	Fiscal 2000 Base Budget	Fiscal 2002 Request	Fiscal 2003 Request
Budget Component			
Base Expenditures	$13,849,204	$13,849,204	$13,849,204
DP 148 Institutional PLA	0	157,908	441,394
DP 198 SABHRS Adjustment	0	(3,736,346)	(3,736,346)
Total Base/Request	$13,849,204	$10,270,766	$10,554,252
Federal Funds	$13,849,204	$10,270,766	$10,554,252

DP 198 - SABHRS Adjustments - This request increases general fund expenditures by a net of $469,810 and reduces federal spending by a net of $141,000 in each year of the biennium to correct for differences between fiscal 2000 Medicaid expenditures as recorded on SABHRS and actual Medicaid payments. During the transition to the new SABHRS accounting system, payments for Medicaid services made through the Medicaid Management Information System (MMIS) were not recorded accurately on the SABHRS. The request redistributes the fiscal year end accrual and other expenditures to the appropriate reporting levels and funding mix.

LFD ISSUE

The LFD issue related to this base adjustment is discussed in the overview for Medicaid services. Please refer to the comments and table showing the allocation of the adjustments among Medicaid funded services in that discussion.

New Proposals

	Fiscal 2002					Fiscal 2003				
Sub Prgm	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 120 - Personal Assistance Direct Care Wage Increase										
01	0.00	211,931	0	569,524	781,455	0.00	448,676	0	1,214,319	1,662,995
DP 121 - Nursing Home Rate Stabilization										
01	0.00	928,002	331,450	3,384,544	4,643,996	0.00	1,379,394	1,195,700	6,969,363	9,544,457
DP 129 - Provider Rate Increases										
01	0.00	82,521	0	221,761	304,282	0.00	167,811	0	454,173	621,984
DP 140 - Waiver Expansion										
01	0.50	249,566	0	632,864	882,430	0.50	553,061	0	1,460,682	2,013,743
DP 142 - Intergovernmental Transfers										
01	0.00	0	0	1	1	0.00	0	0	1	1
DP 147 - Federal Spending Authority										
01	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
Total	**0.50**	**$1,472,020**	**$331,450**	**$5,808,694**	**$7,612,164**	**0.50**	**$2,548,942**	**$1,195,700**	**$11,098,538**	**$14,843,180**

New proposals for Medicaid services account for 90 percent of the biennial cost of new proposals requested by the Senior and Long-Term Care Division. The most significant is the proposal to raise nursing home reimbursement by 4.5 percent annually for a biennial cost of $14.1 million. A significant share of that request is funded from interest from the new constitutional tobacco settlement proceeds trust fund.

New Proposals

DP 120 - Personal Assistance Direct Care Wage - The executive requests a total of $2.5 million for the biennium, including $670,094 in general fund, to provide a 25 cent per hour wage increase to personal care attendants working in the Medicaid Waiver and Personal Assistance programs. The division indicated that recruitment and retention of qualified workers is the biggest problem facing personal assistance providers. This request also includes a wage increase for the 18.33 percent of waiver expenditures that pay for personal care attendant services that are not available under the regular Personal Assistance program.

LFD COMMENT

This request is an extension of the direct care worker wage increase approved by the 1999 legislature. The legislature attached conditions to the direct care worker wage increases in HB 2. The executive did not request continuation of the HB 2 language. However, if the legislature wants to ensure that the appropriation is used for direct care worker wage increases and that the amount of increase is related to the amount appropriated, it could consider language similar to existing HB 2 language. Suggested changes are listed in italics.

> "The department shall distribute funds in items [direct care worker wage increases] in a way that provides reasonable assurance that the funds are used solely for direct care wage and benefit increases. Not all providers or types of direct care workers must receive the same rate of increase each year of the biennium. *In no instance may the amount of rate increase provided from these funds exceed ___ per hour or ____ percent.* Funds appropriated in items [direct care worker wage increases] must be used for direct care worker wage increases. Funds in items [direct care worker wage increases] may not be used to fund other programs."

Although the legislature made appropriations for the 2001 biennium based on the expectation that the increases would total about 25 cents per hour in fiscal 2000 and 50 cents in fiscal 2001, the division allocated raises above the amounts anticipated as previously discussed. The legislature could also consider adding a ceiling for the hourly rate increase that could be funded from the appropriation.

DP 121 - Nursing Home Rate Stabilization - The executive requests $14.2 million for the biennium, including $3.9 million general fund, to provide a 4.5 percent annual rate increase for nursing homes over the 2003 biennium, based on the McGraw-Hill inflation index. This request was made for two reasons: 1) to introduce stability in the nursing home rate; and 2) to transition to a price based system, where rate differentials among facilities are based on patient acuity.

Medicaid nursing home expenditures in Montana have leveled off, largely due to a decrease in the number of days of care being utilized in the nursing home setting. The decrease in Medicaid bed days is part of an overall decrease in nursing home occupancy. Statewide occupancy rates are at 79 percent in Montana nursing homes at the current time. At the same time, the care needs of the typical nursing home resident are increasing. Residents are being admitted at an older age with medically fragile and complex care needs that can no longer be met in home or community settings.

The current nursing home payment methodology allows significant variability in rates, both among facilities and from one year to the next. The executive began implementing a price based reimbursement system for Medicaid funded nursing homes in fiscal 2001 by establishing a median rate for nursing home reimbursement and basing rate changes for individual nursing homes in relation to the median price.

LFD COMMENT If the legislature approves a rate increase for nursing homes, it may wish to base the appropriation on updated caseload estimates. If Medicaid beds days continue to decline, the amount appropriated for a rate increase could be expected to decline as well.

LFD COMMENT As allowed by language in HB 2, the division may implement additional nursing home rate increases in fiscal 2001 above the level anticipated during the 1999 session if there is excess authority in the HB 2 appropriation for nursing homes. DPHHS staff indicated they would make a decision about additional rate increases in December 2000. Legislative staff has asked DPHHS to inform the legislature if such a rate increase is granted, and if so, what amount the rate increase was. The legislature may wish to consider the total nursing home rate increase granted during fiscal 2001 in relationship to the proposed increase during the 2003 biennium.

LFD COMMENT The Executive Budget uses interest from the new tobacco settlement proceeds trust fund to pay almost half of the state share of cost for the rate increase in fiscal 2003.

LFD COMMENT The nursing home rate increase is calculated for all nursing homes. However, the Executive Budget request includes expansion of an intergovernmental transfer program for county funded nursing homes (see DP 142 Intergovernmental Transfers) that would impact this proposal. County funds from the intergovernmental transfer program would offset part of the general fund cost of the proposed 4.5 percent rate increase in this proposal. DPHHS intends to use the general fund offset by county intergovernmental transfer funds to raise rates for non-county funded nursing homes above 4.5 percent. The maximum increase possible due to this offset would be about 1 percent for all non-county funded nursing homes in fiscal 2002. See the discussion of DP 142 Intergovernmental Transfers.

DP 129 - Provider Rate Increases - The department requests a total of $1.2 million for the biennium, including $513,615 in general fund, to provide a 1.5 percent annual rate increase for Medicaid, Waiver, Home Health and Hospice, and the aging services programs. Medicaid personal assistance services were excluded from this request as the executive considers the 3 percent direct care wage increase for those services included in DP 120 more important than a general rate increase.

LFD ISSUE

The aging services provider rate increase is rolled in with the rate increase for Medicaid services. Aging services rate increases total $259,716 general fund over the biennium. As noted in the LFD Issue in DP 222 Increase in the Federal Older Americans Act Grant, the aging rate increase could be fully or partially funded through federal grant increases.

LFD COMMENT

If the legislature approves the executive rate increase, the amount may change as Medicaid caseload estimates are revised during the session.

DP 140 - Waiver Expansion - The executive requests $2.9 million for the biennium, including $0.8 million general fund, to provide Medicaid Waiver services to an additional 160 people. The Medicaid Waiver provides payment for a variety of community services, including assisted living, to persons eligible for Medicaid reimbursed nursing facility care. Because this program is not a Medicaid entitlement, there are about 260 eligible people on a waiting list for services. The proposed expansion will enable the division to address increasing demand, target the people most at risk of placement in nursing facilities and manage the growth of the community-based option. This request also includes a .5 FTE field staff position to handle increasing caseload.

LFD COMMENT

This request includes an increase of almost $1.2 million between the fiscal 2002 budget and the fiscal 2003 estimate. Legislative staff requested that the division provide information on the total annualized cost of the increase to continue this expansion during the 2005 biennium.

LFD ISSUE

A waiver of federal Medicaid regulations has allowed states to plan for growth in Medicaid funded services that otherwise would be an entitlement. Legislators can appropriate funds for defined growth in the number of services or persons served in a waiver program. While the U.S. Supreme Court Olmstead decision has provided guidance that states must serve persons in the most integrated setting (within funding and system limits), the legislature will most likely be faced with a decision on the level of expansion of community services in order to implement service plans developed in response to Olmstead and/or alternatively be called to evaluate whether plans to downsize institutions and use the savings to fund community services can be effectively implemented.

As noted in the discussion of the present law adjustment for Medicaid waiver services, the division expanded the waiver above the level anticipated by the 1999 legislature. The expansion was funded through savings in other Medicaid programs. If the legislature wishes to fund a known level of expansion in the waiver, it may want to add conditions to the waiver appropriation specifying a ceiling amount the waiver can be expanded. Prior to adding such appropriation conditions, the legislature should ensure that provisions of the department plan to comply with the Olmstead decision have been met at a level deemed sufficient by the legislature.

DP 147 Increased Federal Spending Authority (the last new proposal) includes $2 million of federal authority to "refinance" services that are funded fully from the general fund or expand services. The new proposal is included in the total appropriation for waiver services. If the legislature approves DP 147 as requested in the Executive Budget, it could be considered an implicit assumption that the legislature has approved an additional expansion of the waiver above the level included in DP 140.

DP 142 - Intergovernmental Transfers - The Executive Budget includes $2 in federal funds to establish an intergovernmental transfer program for rate increases for county funded nursing homes. Under the program, a county would be able to transfer county funds provided to county nursing homes to DPHHS to match with federal Medicaid matching funds to raise Medicaid rates. In addition to the $1 annual appropriation in HB 2, the department requests the following language:

> "The Senior and Long-Term Care Division is authorized to pursue up to $14.4 million in state special and federal funding over the biennium sufficient to increase the Medicaid rates of county affiliated nursing facilities through the intergovernmental transfers of state matching funds from counties. The additional federal funds may be expended by the division as long as those actions do not require or commit the state to additional general fund expenditures beyond the amount appropriated for the 2003 biennium by the legislature to the Senior and Long-Term Care Division."

LFD COMMENT As noted in the division overview, this language does not provide an appropriation to the division. Since the Executive Budget does not include an appropriation, the legislature may wish to increase the amount in the new proposal or include a language appropriation.

County Nursing Home Intergovernmental Transfer Program

Counties that fund and operate county nursing homes could raise daily Medicaid rates for their nursing homes through this proposal. Counties would transfer funds to DPHHS to draw down the matching federal Medicaid funds to increase daily Medicaid rates. The maximum daily rate that could be paid according to draft federal rules would be the upper payment limit calculated using Medicare cost principles.

The average daily rate paid to all nursing homes in fiscal 2001 is estimated to be about $100 per day, which includes the patient contribution (about $20) and the amount paid from general fund and federal appropriations for the Medicaid nursing home program (about $80). DPHHS has estimated, for budgeting purposes, that the allowable Medicare upper payment limit could be up to $126 per day in fiscal 2003. So comparing estimated rates under the proposal for fiscal 2001 to fiscal 2003, a county funded nursing home could forward to DPHHS matching funds of $7 per day to draw down an additional $19 per day in federal funds. The total daily rate would rise $26 per day for a net revenue increase to the county of $19 per day.

There are 37 county funded nursing homes in Montana. DPHHS estimates that county funded facilities will provide about 270,000 days of care or about 20 percent of the total 1.3 million days of care funded in the Medicaid program in fiscal 2001. All but 5 of these facilities are the only nursing homes within 20 miles of a privately operated nursing home. Notable exceptions are Helena and Bozeman where cities have both county funded and private facilities. Many counties are already contributing local tax dollars for the operation of county funded facilities.

Program Administration

DPHHS has already implemented an intergovernmental transfer program in fiscal 2001. The program allows a participating county to send in matching funds to raise the daily rate for its nursing home up to $97.02 per day, the statewide median Medicaid daily rate. Only county nursing homes with rates below the median rate were allowed to participate in the fiscal 2001 program. Fourteen counties chose to participate.

DPHHS anticipates that it will administer the expanded program in the same manner as in fiscal 2001. Each county agreed to send in a lump sum payment to DPHHS at the beginning of fiscal 2001, based on the estimated number of Medicaid funded nursing home bed days and the non federal share of the daily rate increase. For instance, if a nursing home was projected to provide 10,000 days of Medicaid funded care, the rate increase was $5 per day, and the match rate was 27.15 percent, the county would have remitted $13,575 to DPHHS. Then the county would have received an additional $5 per day for each day of Medicaid funded care compared to its initial investment of $1.36 (based on 10,000 days of care). If a county nursing home provided fewer days of care than estimated, its daily investment would be higher. If a county nursing home provided more than 10,000 days of care, the state general fund will pick up the extra cost above the county contribution.

The administrative method was chosen to provide administrative simplicity. If each county were charged for the rate increase based on the total number of actual days of nursing care funded by the Medicaid program, it would require a cost settlement process.

Interaction with General Nursing Home Rate Increase

DPHHS will require that counties participating in the expanded intergovernmental transfer program provide the non-federal share of funding for the 4.5 percent Medicaid rate increase (if approved) for the 2003 biennium in addition to participating in the expanded rate increases due to the intergovernmental transfer program. (DPHHS is requesting a 4.5 percent rate increase for nursing homes included in decision package 121 "Nursing Home Rate Stabilization".) So county funds would provide the state match for Medicaid rate increases approved by the legislature for all nursing homes, as well as any rate increases above that amount and due to the intergovernmental transfer program.

Draft Federal Rules
This program is allowed by existing federal Medicaid regulations as well as changes made by draft federal rules. The draft rules may be final during the 2001 legislative session. Legislative staff will provide updates if final rules materially impact the DPHHS proposal.

LFD ISSUE

The legislature may wish to consider several issues in relationship to this proposal: 1) the amount of federal Medicaid matching funds returned to counties participating in the program; 2) whether to fund the program through language or a regular HB 2 appropriation; and 3) whether to authorize DPHHS to limit participation of some county facilities.

Federal Matching Funds Returned to Counties
Prior to proposed changes in federal rules governing intergovernmental transfer programs, states had used this funding mechanism to generate excess federal Medicaid matching funds. In some instances, state returned less than the full amount of federal Medicaid matching funds generated by the county funds. The proposed rules establish that rates paid to public facilities that are not state-owned may not exceed the Medicare upper payment limit. However, the proposed rules are silent about how much federal matching money must be returned to a participating facility. As long as a state does not exceed the upper payment limit, it has some discretion in establishing criteria to participate in the program.

The legislature may wish to decide how much of the federal match is returned to counties participating in the proposed nursing home program. Under the department proposal, it is possible that the amount of county funds remitted at the beginning of a fiscal year is lower than the required non-federal match for actual payments made to a county facility. (The reverse is also true.)

The legislature could decide to require counties to pay a higher match rate than the non-federal share (27.12 percent in fiscal 2002 and estimated to be 26.98 percent in fiscal 2003). The legislature could establish a fixed differential. For example, the legislature could require counties to remit an amount equal to the match rate plus a certain percent. The match rate could be designed to ensure that the general fund did not pay for cost or rate increases derived through the intergovernmental transfer program. If county funds were generated in excess of the amount required to fund intergovernmental transfers, the county funds could be used for the Medicaid program.
Language Versus Regular HB 2 Appropriation

The Executive Budget includes a request for a regular appropriation ($2) and a language in HB 2. Neither proposal includes sufficient authority to fund the intergovernmental transfer program. If the legislature approves the proposal, it may wish to decide which type of appropriation is indicated and how much authority by fund type is desired. The language included in the executive request identifies a total amount of funding, but is not specific with respect to the amount by fund type and it does not establish an appropriation.

Language appropriations are removed from actual expenditures when the base budget is developed and are not included in the totals in HB 2 or in the tables explaining budget analysis or appropriation action by the legislature. Funding this proposal through a language appropriation will understate nursing home expenditures and add unnecessary complexity to explaining and understanding the base budget, Executive Budget request, and legislative action.

LFD ISSUE CONTINUED

The legislature could authorize a regular appropriation if it approves this proposal. If the county matching funds were appropriated through state special revenue, it would be easy to track total county contributions and expenditures. If the legislature wanted to attach conditions to the appropriation, it could do so through language in HB 2.

Limiting Participation in the Program

The legislature may hear concerns from privately owned nursing facilities within the same market area or community as a county owned nursing facility, because this program will allow county owned facilities in the same community to be paid at a higher rate than a private facility. This issue was not applicable in the fiscal 2001 program, because county facilities co-located in communities with privately operated nursing homes had rates above the statewide median rate and could not participate.

If the legislature wishes to address this issue, it could consider two options. The legislature could consider limiting county owned facility participation in the program if the county facility is in a community that also has a privately operated facility, or the legislature could consider a rate differential for privately owned facilities in the same community as a county owned facility. There is no financing mechanism comparable to intergovernmental transfers for privately operated nursing facilities within federal rules, so matching funds for any rate differential would have to come from the general fund. However, if the legislature considers either of these policies, it should seek advice from legislative legal staff on potential equal protection concerns under the state constitution. There must be a rational basis to discriminate among entities within the same class in order to avoid equal protection problems.

Finally, there may be increased pressure by privately owned facilities to increase rates commensurate with rates paid to counties under the intergovernmental transfer program.~

LFD COMMENT

Preliminary federal rules regarding intergovernmental transfers promulgated by the Health Care Financing Administration establish an upper payment limit for public facilities that are not state owned. The proposed rules specify that the upper payment limit can be no more than would be paid under Medicare payment principles. If payment rates to county nursing homes were to reach those limits, the amounts above the upper payment limit could not be funded or matched with federal Medicaid funds. Any rate increases authorized under such conditions would be born entirely from the general fund.

If the legislature chooses to authorize an intergovernmental transfer program for county nursing homes, it may wish to establish parameters to clearly articulate that rates in excess of the upper payment limit will not be funded from state funds, or that rates paid to county-owned facilities may not exceed the upper payment limit under Medicare cost principles. The legislature may also wish to consider whether state general fund could be used to backfill the nonfederal share of Medicaid payments if county contributions were to decline from one fiscal year to the next, or if the federal Medicaid match rate were to decline.

If the legislature chooses to establish policy parameters, counties opting to participate in the program should understand limitations of the intergovernmental transfer program prior to entering into any agreement with DPHHS. In most cases, the legislature would need to enact changes to statute to make any such policies binding. Establishing program guidelines as a condition of the appropriation is inappropriate, since the preceding policy changes are substantive law and therefore should not be included in the general appropriations act as language.~

DP 147 - Federal Spending Authority - The Executive Budget includes $2 million federal funds over the biennium that is unrelated to a specific funding source. The funds could be used for a variety of activities, such as federal Medicaid matching authority to offset part of the cost of services that are funded fully from state sources or for a new federal grant. The Executive Budget also requests the following language:

> "The Senior and Long-Term Care Division is authorized to pursue up to $2.0 million in federal funding over the biennium to enhance or improve division services or programs. These additional federal funds may be expended by the division on services as long as those actions do not require or commit the state to additional general fund expenditures beyond the amount appropriated for the 2003 biennium by the legislature to the division."

The 1995 and 1997 legislatures provided the division with a similar language or directly appropriated federal spending authority for this purpose. In one instance, the division used the additional federal authority to expand Medicaid waiver services using general fund already appropriated for aging services programs as match.

LFD ISSUE Legislators may wish to consider the effects of expanding programs beyond the level anticipated by the legislature. While costs may not increase in the biennium in which the additional federal funding is used, it could lead to additional general fund expenditures in future biennia. For instance, if the state matching rate for Medicaid increases, the legislature may be faced with the decision as to whether to increase general fund to maintain an expanded level of service, not fund other types of increases, or reduce services.

Approval of this decision package could also be construed as legislative direction to expand Medicaid funded services without direct legislative oversight. DPHHS has initiated rate increases and expanded Medicaid services during the 2001 biennium that were not reviewed or anticipated by the 1999 legislative session. If the legislature approves this language, it may want to indicate that the federal authority is to be used to refinance existing services that are fully or mostly funded from state or county funds, but that the authority may not be used to fund new services that were not reviewed or approved by the 2001 legislature.

Sub-Program Details

Veterans 02

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	95.29	9.00	0.00	104.29	18.00	0.00	113.29	113.29
Personal Services	2,806,816	301,444	0	3,108,260	566,399	0	3,373,215	6,481,475
Operating Expenses	1,356,236	64,078	0	1,420,314	119,317	0	1,475,553	2,895,867
Equipment	39,141	27,983	0	67,124	27,983	0	67,124	134,248
Grants	875,075	0	0	875,075	0	0	875,075	1,750,150
Debt Service	2,698	0	0	2,698	0	0	2,698	5,396
Total Costs	**$5,079,966**	**$393,505**	**$0**	**$5,473,471**	**$713,699**	**$0**	**$5,793,665**	**$11,267,136**
State/Other Special	2,678,638	277,981	0	2,956,619	464,906	0	3,143,544	6,100,163
Federal Special	2,401,328	115,524	0	2,516,852	248,793	0	2,650,121	5,166,973
Total Funds	**$5,079,966**	**$393,505**	**$0**	**$5,473,471**	**$713,699**	**$0**	**$5,793,665**	**$11,267,136**

Veterans services accounts for about 3 percent of the total division budget and includes the two veterans' homes. The homes are funded with a combination of private payments, state special cigarette tax revenue, and federal funds from the Veterans' Administration.

Cigarette Tax Revenue

Veterans services receive 11.11 percent of cigarette tax revenue (Section 16-11-119(1), MCA). In addition to appropriations for operating costs for the veterans' homes in HB 2, building projects funded in the Long-Range Building Program are also supported from cigarette taxes allocated to veterans services. The new 15-bed special care unit is funded with a $1.1 million appropriation from the cigarette tax proceeds; however, the executive is expecting that federal funds will be available to pay for construction. Table 22-10 shows revenue estimates, expenditures and the cigarette tax fund balance.

The revenue estimates included in Table 22-10 do not consider the proposed increase in cigarette tax revenue in the Executive Budget. However, without an increase in revenue, the 2003 biennium Executive Budget (operating and long-range building costs) is higher than ongoing annual estimated cigarette tax revenue, creating a structural imbalance. If the average of expenditures over the 2003 biennium (about $1.36 million annually) represents the level of ongoing costs for operation and maintenance of the veterans' homes, the fund balance would be sufficient to fund the program for another 15 to 16 years. However, if federal funds are not received for the construction of the new 15-bed special care unit and it is funded from cigarette tax revenue, the fund balance would be sufficient to fund 2003 biennial program expenditure level for another 8 years.

Table 22-10
Cigarette Tax Proceeds and Fund Balance
Veterans Services

Fund Balance Deposits/Expenditures	Fiscal 1999	Fiscal 2000	Fiscal 2001*	Fiscal 2002*	Fiscal 2003*
Beginning Fund Balance	$ 2,415,429	$ 2,571,455	$ 2,642,356	$ 2,778,941	$ 2,486,591
Revenue/Transfers In	1,342,010	1,287,414	1,251,000	1,225,000	1,200,000
Expenditures/Transfers Out	1,215,787	1,216,513	1,114,415	1,517,350	1,203,609
Adjustments	29,803	-	-	-	-
Ending Fund Balance	$ 2,571,455	$ 2,642,356	$ 2,778,941	$ 2,486,591	$ 2,482,982
Construction of 15-Bed Special Care Unit - MVH					$ 1,065,757
Balance if Federal Funding not Received to Offset Construction of Special Care Unit					$ 1,417,225

*Revenue based on estimates adopted by the Revenue Oversight Taxation and Transportation Committee. Expenditures based on the Executive Budget request. Estimated expenditures also include long-range building proposals funded from the veterans cigarette allocation in fiscal 2002 and indirect cost allocation within DPHHS.

Operating Expenditures Recorded as Grants to Local Agencies

In response to a legislative audit finding, the division began recording payments from the Veterans' Administration for operation of the Eastern Montana Veterans' Home as a budgeted expense. The division recorded such payments as a grant to local agencies.

LFD COMMENT

The expense category used to budget federal veterans payments represents a payment to a public, non-state agency. The veterans' homes are state agencies. In all other institutional budgets within DPHHS, operating costs to support institutions are recorded as operating expenses instead of grant expenditures. The executive budget overstates the amount of funds expended and appropriated for grants to local agencies. The legislature may wish to direct legislative staff to record the appropriation for these funds in the appropriate category of operating expenditure and request that the division do the same in accounting for program expenditures.

Present Law Adjustments

	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					51,975					67,473
Vacancy Savings					(74,931)					(75,396)
Inflation/Deflation					8,480					6,826
Fixed Costs					(5,383)					(4,929)
Total Statewide Present Law Adjustments					**($19,859)**					**($6,026)**
DP 24 - MVH Operating Expense Adjustments	0.00	0	48,807	0	48,807	0.00	0	48,807	0	48,807
DP 25 - MVH Special Care Unit	9.00	0	207,352	129,222	336,574	18.00	0	347,475	295,460	642,935
DP 116 - MVH Equipment	0.00	0	16,918	0	16,918	0.00	0	16,918	0	16,918
DP 141 - EMVH Equipment	0.00	0	11,065	0	11,065	0.00	0	11,065	0	11,065
Total Other Present Law Adjustments	**9.00**	**$0**	**$284,142**	**$129,222**	**$413,364**	**18.00**	**$0**	**$424,265**	**$295,460**	**$719,725**
Grand Total All Present Law Adjustments					**$393,505**					**$713,699**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 24 - MVH Operating Expense Adjustments - The Executive Budget includes $97,614 in cigarette tax state special revenue over the biennium for personal services costs and laundry and grounds maintenance expenses at the veterans' nursing homes. Personal services adjustments totaling $72,600 fund anticipated overtime, shift differential and holidays worked costs, the same amount as incurred in fiscal 2000. Since these costs are removed from the base budget, programs must include a budget request to support comparable costs in the 2003 biennium. Laundry and grounds maintenance expenses total about $35,000. These increases are partially offset by reductions of $58,000 for one-time repair expenses incurred in fiscal 2000.

DP 25 - MVH Special Care Unit - The 1999 legislature approved the construction of a 15-bed special care unit at the Montana Veterans' Home in Columbia Falls to provide services to residents with various forms of dementia. The facility is scheduled to begin operation in January of 2002. This request is for the funding and staff required to operate the new unit at a biennial cost of $979,509, including 18 FTE and $146,065 of cigarette tax state special revenue.

DP 116 - MVH Equipment - This request adds $34,000 state special revenue cigarette tax over the biennium to maintain funding for equipment for the Montana Veterans' Home. Equipment purchases include a whirlpool, electric beds, hydraulic bath chairs, an EKG machine, a sara lift and a wheelchair accessible van. A private donation of $17,500 is anticipated to pay for half of the cost of the wheelchair van.

DP 141 - EMVH Equipment - This request would add $22,130 in state special revenue cigarette tax over the biennium to purchase equipment for Eastern Montana Veterans' Home. Anticipated equipment purchases include a whirlpool tub, electric beds, dining and activity tables, geri chairs, a sara lift and replacement mattresses.

Sub-Program Details

Aging 03

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	8.71	0.00	0.00	8.71	0.00	0.00	8.71	8.71
Personal Services	400,204	(16,881)	0	383,323	(14,421)	0	385,783	769,106
Operating Expenses	247,352	9,488	45,000	301,840	19,832	0	267,184	569,024
Grants	5,368,165	223,752	1,016,141	6,608,058	223,752	1,033,575	6,625,492	13,233,550
Benefits & Claims	803,000	75,953	0	878,953	131,321	0	934,321	1,813,274
Total Costs	**$6,818,721**	**$292,312**	**$1,061,141**	**$8,172,174**	**$360,484**	**$1,033,575**	**$8,212,780**	**$16,384,954**
General Fund	1,896,886	319,335	86,141	2,302,362	384,853	173,575	2,455,314	4,757,676
State/Other Special	0	0	108,750	108,750	0	25,375	25,375	134,125
Federal Special	4,921,835	(27,023)	866,250	5,761,062	(24,369)	834,625	5,732,091	11,493,153
Total Funds	**$6,818,721**	**$292,312**	**$1,061,141**	**$8,172,174**	**$360,484**	**$1,033,575**	**$8,212,780**	**$16,384,954**

Aging services administers funding from the Older Americans Act, which supports contracts with Area Agencies on Aging to provide meals, transportation, public education, information and assistance, and other services to older Montanans. Aging services is primarily funded with federal grant funds from the Older Americans Act. General fund supports some of the required state match for federal funds and in recent biennia has funded provider rate increases since federal funds have been capped. Aging services comprise 4.3 percent of the total division budget.

Present Law Adjustments	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					(5,980)					(3,443)
Vacancy Savings					(10,901)					(10,978)
Inflation/Deflation					(234)					190
Fixed Costs					(10,293)					(10,293)
Total Statewide Present Law Adjustments					**($27,408)**					**($24,524)**
DP 35 - Aging PLA :Provider Rate and Direct Care Increases	0.00	223,752	0	0	223,752	0.00	223,752	0	0	223,752
DP 81 - State Supplemental Caseload Increase	0.00	95,968	0	0	95,968	0.00	161,256	0	0	161,256
Total Other Present Law Adjustments	**0.00**	**$319,720**	**$0**	**$0**	**$319,720**	**0.00**	**$385,008**	**$0**	**$0**	**$385,008**
Grand Total All Present Law Adjustments					**$292,312**					**$360,484**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 35 - Aging PLA: Provider Rate and Direct Care Increases - The department requests a total of $1.2 million for the biennium, including $513,615 in general fund, to provide a 1.5 percent annual rate increase for Medicaid, Waiver, Home Health and Hospice, and aging services programs. Medicaid personal assistance services were excluded from this request because the department proposed a 3 percent direct care wage increase instead of a general rate increase.

LFD ISSUE

If the legislature approves this request, it could consider using some of the increase in federal grant funds authorized in the Federal Older Americans Act Grant to support a portion or all of the provider rate increase requested by the department for aging services (see DP 222). The amount of funding for aging services provider rate increases is $259,716 general fund over the biennium, compared to a total grant increase of $1.6 million.

Beginning in the 1997 biennium, the executive requested and the legislature approved for the first time, general fund supported provider rate increases in services initiated and supported by the federal Older Americans Act. Prior to that time, rate increases were not implemented or were made within the available federal grant funding level.

LFD COMMENT

The legislature has traditionally considered rate increases for service costs in the coming biennium as a new proposal rather than a present law adjustment. All other 2003 biennium rate increases requested by DPHHS divisions are included as new proposals.

DP 81 - State Supplemental Caseload Increase - The executive requests $257,224 general fund over the biennium for projected caseload growth in the state supplement program in fiscal years 2001 through 2003. The state supplement payment is a state funded payment that "supplements" the federal Supplemental Security Income (SSI) payments to low-income persons residing in certain licensed facilities, primarily developmental disability group homes. The average cost per month per recipient is $83. In addition, the state contracts with the Social Security Administration to process and add the state supplement payment to appropriate social security checks at a cost of $8.50 per person per month in fiscal 2002 and $9.00 in fiscal 2003.

New Proposals

	Fiscal 2002					Fiscal 2003				
Sub Prgm	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 115 - Guardianship, APS Staff, Prevention& Education										
03	0.00	0	108,750	41,250	150,000	0.00	0	25,375	9,625	35,000
DP 129 - Provider Rate Increases										
03	0.00	86,141	0	0	86,141	0.00	173,575	0	0	173,575
DP 222 - Older Americans Act Aging Grant Increase										
03	0.00	0	0	825,000	825,000	0.00	0	0	825,000	825,000
Total	**0.00**	**$86,141**	**$108,750**	**$866,250**	**$1,061,141**	**0.00**	**$173,575**	**$25,375**	**$834,625**	**$1,033,575**

New Proposals

DP 222 - Older Americans Act Aging Grant Incr - The executive requests $1.6 million in federal authority over the biennium due to an increase in the federal Older Americans Act grant. The request includes a $400,000 increase in funding for existing services such as senior centers, meals on wheels and transportation. Also included is $1.2 million for a new Family Caregiver Support program to assist family caregivers by providing information about services, assistance with locating services, training, respite care and other support services to assist them in caring for their relative. Existing state and local funds will be used to meet the state match requirement for the grant.

LFD ISSUE The legislature could consider using some of the increase in federal grant funds to support a portion or all of the provider rate increase requested by the department for aging services. See discussion in DP 129.

Acceptance of the federal grant funds for the Family Caregiver Support program will add a new program. Workers that provide some of the services funded by this new grant program are examples of workers who would have been eligible for direct care worker wage increases approved by the 1999 legislature and would be eligible for such wage increases as requested in the 2003 biennium Executive Budget. DPHHS has requested rate increases from the general fund for providers in federally funded programs when federal funds were capped. If the legislature approves this request, it may wish to provide advice, record its intent in the Legislative Fiscal Report, or condition the appropriation so that rate increases for the new program must be funded from federal funds in the 2003 biennium and 2005 biennium budget request.

Sub-Program Details

Division Administration 04

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	6.00	0.00	0.00	6.00	0.00	0.00	6.00	6.00
Personal Services	294,313	2,650	0	296,963	4,626	0	298,939	595,902
Operating Expenses	149,383	43,483	0	192,866	48,742	0	198,125	390,991
Benefits & Claims	(6,424)	0	0	(6,424)	0	0	(6,424)	(12,848)
Total Costs	**$437,272**	**$46,133**	**$0**	**$483,405**	**$53,368**	**$0**	**$490,640**	**$974,045**
General Fund	210,697	22,330	0	233,027	25,880	0	236,577	469,604
State/Other Special	111,684	10,350	0	122,034	11,316	0	123,000	245,034
Federal Special	114,891	13,453	0	128,344	16,172	0	131,063	259,407
Total Funds	**$437,272**	**$46,133**	**$0**	**$483,405**	**$53,368**	**$0**	**$490,640**	**$974,045**

Division administration oversees administration and management of the Senior and Long-Term Care Division. Division administrative costs are less than 1 percent of the total biennial budget request.

Present Law Adjustments	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					11,178					13,215
Vacancy Savings					(8,528)					(8,589)
Inflation/Deflation					1,311					2,424
Fixed Costs					36,560					37,254
Total Statewide Present Law Adjustments					**$40,521**					**$44,304**
DP 146 - Medicaid Field Staff Office Rent Costs	0.00	2,806	0	2,806	5,612	0.00	4,532	0	4,532	9,064
Total Other Present Law Adjustments	**0.00**	**$2,806**	**$0**	**$2,806**	**$5,612**	**0.00**	**$4,532**	**$0**	**$4,532**	**$9,064**
Grand Total All Present Law Adjustments					**$46,133**					**$53,368**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 146 - Medicaid Field Staff Office Rent Co - The Executive Budget includes $14,676 total funds ($7,338 general fund), for anticipated increases in lease contracts for Medicaid Regional Program Officers located around the state. Current contracts reflect an annual increase of 15 percent for these offices. This request is funded from the general fund (50 percent) and from Medicaid administration funding (50 percent).

LFD ISSUE

See agency wide issue.

Sub-Program Details

APS 05

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	32.79	0.00	4.00	36.79	0.00	6.50	39.29	39.29
Personal Services	1,238,933	76,909	141,593	1,457,435	84,196	227,282	1,550,411	3,007,846
Operating Expenses	253,430	28,036	30,000	311,466	32,740	48,750	334,920	646,386
Equipment	0	0	10,000	10,000	0	7,500	7,500	17,500
Grants	0	0	50,000	50,000	0	50,000	50,000	100,000
Benefits & Claims	16,616	176,093	0	192,709	176,093	0	192,709	385,418
Debt Service	1,705	0	0	1,705	0	0	1,705	3,410
Total Costs	**$1,510,684**	**$281,038**	**$231,593**	**$2,023,315**	**$293,029**	**$333,532**	**$2,137,245**	**$4,160,560**
General Fund	1,466,093	177,815	0	1,643,908	188,961	0	1,655,054	3,298,962
State/Other Special	0	0	227,593	227,593	0	326,362	326,362	553,955
Federal Special	44,591	103,223	4,000	151,814	104,068	7,170	155,829	307,643
Total Funds	**$1,510,684**	**$281,038**	**$231,593**	**$2,023,315**	**$293,029**	**$333,532**	**$2,137,245**	**$4,160,560**

The program to provide protective services for adults age 60 or older and disabled individuals age 18 or older was transferred from the Child and Family Services Division to the Senior and Long-Term Care Division in fiscal 2000. The protective services function includes investigation of allegations of abuse and neglect. When allegations are substantiated, adult protective services workers help victims of abuse and neglect access services. The protective services function is about 1 percent of the division budget request.

Present Law Adjustments	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					113,742					121,254
Vacancy Savings					(36,833)					(37,058)
Inflation/Deflation					48					181
Fixed Costs					(928)					(928)
Total Statewide Present Law Adjustments					**$76,029**					**$83,449**
DP 77 - APS Emergency Support PLA	0.00	75,887	0	100,206	176,093	0.00	75,404	0	100,689	176,093
DP 143 - Rent Increase for APS Field Offices	0.00	24,460	0	756	25,216	0.00	28,893	0	894	29,787
DP 145 - Leased Cars For APS Field Staff	0.00	3,589	0	111	3,700	0.00	3,589	0	111	3,700
Total Other Present Law Adjustments	**0.00**	**$103,936**	**$0**	**$101,073**	**$205,009**	**0.00**	**$107,886**	**$0**	**$101,694**	**$209,580**
Grand Total All Present Law Adjustments					**$281,038**					**$293,029**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies.

DP 77 - APS Emergency Support PLA - The department requests $352,186, including $152,186 general fund, for the biennium to raise the level of funding to the amount appropriated in fiscal 2001 for protective emergency and support. The appropriation for fiscal 2000 was $50,000 general fund and $50,000 federal funds, which was increased to $100,000 general fund and $100,000 federal funds in fiscal 2001. Base expenditures were mostly from the general fund and included $16,616 in benefits, $10,000 in contracted services, and $365 in long distance call expense.

The program was transferred to Senior and Long-Term Care from Child and Family Services Division beginning in fiscal 2000. Expenditures for services were limited as guidelines and accounting procedures for the expenditure of these funds were developed.

LFD ISSUE

Expenditures recorded as of the end of November 2000 in the statewide accounting system indicated that about $14,000 of general fund services had been provided for adult protective services. Annualizing year to date costs, the program would spend about $40,000 of general fund for services. Legislative staff will provide an update to the legislature regarding the level of services provided during fiscal 2001 and how the services are funded. The executive request exceeds current expenditure patterns. The legislature could also consider whether to line item or restrict the appropriation if it chooses to fund the executive request.

DP 143 - Rent Increases for APS Field Offices - This request totals $25,216 in fiscal 2002 and $29,787 in fiscal 2003 for rent increases that are contained in multi-year rental contracts for Adult Protective Services field offices located throughout the state. The request is funded 97 percent from general fund and 3 percent from federal Medicaid funds. The funding split reflects that 3 percent of the adult protective services caseloads are Medicaid recipients that receive assistance with Medicaid eligible services.

LFD ISSUE

See agency wide issue related to field office rent.

DP 145 - Lease Cars for APS Field Staff - This request would allow the division to lease four vehicles from the Department of Transportation during the 2003 biennium. These vehicles would be used by field staff who currently use their personal vehicles in excess of 10,000 miles per year. This request would reduce personal car mileage expenses by $16,640 and increase lease expenses by $20,340 each year for a net increase of $3,700 per year. This request is funded from general fund (97 percent) and federal Medicaid funds (3 percent).

New Proposals

	Fiscal 2002					Fiscal 2003				
Sub Prgm	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 115 - Guardianship, APS Staff, Prevention& Education										
05	4.00	0	227,593	4,000	231,593	6.50	0	326,362	7,170	333,532
Total	**4.00**	**$0**	**$227,593**	**$4,000**	**$231,593**	**6.50**	**$0**	**$326,362**	**$7,170**	**$333,532**

New Proposals

DP 115 - Guardianship, Prevention and Education - The Executive Budget includes a total of $750,125 for the biennium, including $688,080 in state special revenue from the lien and estate recoveries for: 1) 3.5 FTE in fiscal 2002 and 5.5 FTE adult protective service workers in fiscal 2003 to investigate allegations of abuse and neglect at a cost of $372,335 over the biennium; 2) contracts with local agencies for abuse prevention and education activities at a cost of $100,000 over the biennium; 3) a public guardianship program to reduce the need to rely on state employees to act as guardians for incapacitated adults at a cost of 1 FTE and $92,790 over the biennium, and; 4) efforts to educate Montanans about long-term care issues, services and planning at a cost of $185,000 over the biennium.

LFD ISSUE

This request is the first time that lien and estate funds have been requested to support ongoing program costs. Previously, the funds have been used to fund one-time improvements related to the quality of long-term Medicaid funded services.

Since lien and estate funds are deposited to the general fund it may be more appropriate to budget general fund instead of state special revenue in the executive request. The Legislative Finance Committee (LFC) has extensively reviewed state special revenue and statutory appropriations over the last several biennia. As part of that review, the LFC sponsored legislation to codify policies about the appropriate creation and use of state special revenue (Section 17-1-505(3), MCA). Three of those guidelines that are appropriate to this proposal include: 1) the program or activity provides direct benefits to those who pay the dedicated tax, fee, or assessment, and the tax, fee, or assessment is commensurate with the cost of the program or activity; 2) the dedicated revenue provides program funding at a level equivalent to the expenditures established by the legislature; and 3) the dedicated revenue does not impair the legislature's ability to scrutinize the budget, control expenditures, and establish priorities for state spending. Use of a state special revenue account does not appear to meet these legislative policy guidelines for this proposal.

Lien and estate recoveries are not necessarily recouped from persons who receive adult protective services. Diverting lien and estate recoveries to adult protective services would lessen the amount of lien and estate recoveries available for other uses, which has included funding for improvements to the quality of nursing home and community based services in past biennium. Using lien and estate funds to improve quality of services may have provided benefits to persons whose Medicaid funded services were partially or fully paid from estate proceeds.

LFD ISSUE CONTINUED

The level of lien and estate recoveries is not closely related to adult protective services program expenditures. The state share of such recoveries is dependent on a number of factors unrelated to adult protective services. For instance, the state share of lien and estate proceeds is determined by the federally determined state match for Medicaid benefits and collections depend on circumstances of individual Medicaid recipients. Neither of these determinants, which are significant to the amount of lien and estate collections, is necessarily germane to the number of adults who need protective services, nor the amount and types of services they may need.

Finally, budgeting these costs from state special revenue may subject the approval of adult protective services expenditures to less scrutiny than would be the case of the costs were budgeted from the general fund.

Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	547.42	38.00	2.00	587.42	38.00	2.00	587.42	587.42
Personal Services	19,782,444	2,873,056	94,102	22,749,602	3,024,273	94,438	22,901,155	45,650,757
Operating Expenses	8,210,057	2,192,600	374,567	10,777,224	2,433,897	26,325	10,670,279	21,447,503
Equipment	181,417	0	0	181,417	0	0	181,417	362,834
Local Assistance	0	0	0	0	0	0	0	0
Grants	5,658,013	4,041,753	(904,934)	8,794,832	4,039,897	(1,234,894)	8,463,016	17,257,848
Benefits & Claims	61,401,623	23,554,936	4,684,865	89,641,424	27,153,076	9,201,161	97,755,860	187,397,284
Transfers	0	0	0	0	0	0	0	0
Debt Service	81,464	0	1,200	82,664	0	1,200	82,664	165,328
Total Costs	**$95,315,018**	**$32,662,345**	**$4,249,800**	**$132,227,163**	**$36,651,143**	**$8,088,230**	**$140,054,391**	**$272,281,554**
General Fund	46,684,220	7,472,386	855,464	55,012,070	8,808,399	1,175,437	56,668,056	111,680,126
State/Other Special	5,816,560	1,130,897	96,467	7,043,924	1,255,660	334,109	7,406,329	14,450,253
Federal Special	42,814,238	24,059,062	3,297,869	70,171,169	26,587,084	6,578,684	75,980,006	146,151,175
Total Funds	**$95,315,018**	**$32,662,345**	**$4,249,800**	**$132,227,163**	**$36,651,143**	**$8,088,230**	**$140,054,391**	**$272,281,554**

Program Description

The Addictive and Mental Disorders Division (AMDD) is responsible for providing alcohol and drug prevention services, treatment and aftercare services, and mental health treatment services. Alcohol and drug inpatient, outpatient, and prevention services are provided through contracts with community-based programs around the state. Direct inpatient services are also provided at the 76-bed Montana Chemical Dependency Center (MCDC) in Butte.

Community-based mental health services are delivered to eligible Medicaid and non-Medicaid individuals through a network of providers around the state. Non-Medicaid services are delivered through the Mental Health Services Plan (MHSP) and provide services to individuals earning up to 150 percent of the federal poverty level. Montana State Hospital (MSH) at Warm Springs (190 beds) and the Montana Mental Health Nursing Care Center (MMHNCC) at Lewistown (165 beds) provide institutional services to individuals with mental illness. The services at MSH are typically of a short duration while services for residents at the MMHNCC are considered to be long term.

Biennium Comparison

The Program Proposed Budget, Present Law Adjustment and New Proposal tables all measure the changes in the 2003 biennium budget request compared to base budget expenditures in fiscal 2000. However, a proportion of the present law adjustments requested in benefits and personal services costs in this program are related to incremental changes between fiscal 2000 actual costs and the fiscal 2001 appropriation, due to pay plan increases and caseload growth. Table 33-01 shows the comparison of the change from the 2001 to the 2003 biennium.

The 2003 biennium budget request is $75 million total funds and $22 million general fund higher than the 2001 biennium expenditures and appropriations. However, a supplemental appropriation for mental health services cost over-runs during the biennium of $31.1 million total funds, including $11.2 million general fund, is not reflected in the 2001 biennium costs. Supplemental

Table 033-01
2001 Biennium Compared to 2003 Biennium
Addictive and Mental Disorders Division

Budget Item/Fund	2001 Biennium	2003 Biennium	Change	Percent of Total
Personal Services	$ 40,216,920	$ 45,650,757	$ 5,433,837	7.2%
Operating	14,422,763	21,447,503	7,024,740	9.3%
Equipment	332,273	362,834	30,561	0.0%
Local Assistance	1,000,000	0	(1,000,000)	-1.3%
Grants	11,729,944	17,257,848	5,527,904	7.3%
Benefits/Claims	127,126,558	187,397,284	60,270,726	80.0%
Debt Service	2,100,536	165,328	(1,935,208)	-2.6%
Total Costs*	$196,928,994	$ 272,281,554	$75,352,560	100.0%
General Fund	$ 89,251,888	$ 111,680,126	$22,428,238	29.8%
State Special	27,429,393	14,450,253	(12,979,140)	-17.2%
Federal Funds	80,247,713	146,151,175	65,903,462	87.5%
Total Funds*	$196,928,994	$ 272,281,554	$75,352,560	100.0%
Percent Increase			27.7%	

*The 2001 biennium does not include the supplemental request of $31.1

appropriations are removed from base budget expenditures as a standard part of budget preparation. If the supplemental amount were included, the change between biennia would be $44 million.

The increase from the 2001 biennium to the 2003 biennium budget request is largely due to present law adjustments to the base budget since new proposals add $12 million of the $75 million increase. The most significant changes include:

- ?? Annualization of the net cost increases due to mental health services cost over-runs in the 2001 biennium;
- ?? Caseload increases and inflation in pharmacy costs for mental health and state institution services;
- ?? Annualization of pay plan and requests to continue funding for overtime, holiday, and shift differential pay at the state institutions administered by this program; and
- ?? New proposals to expand Medicaid services to include chemical dependency services, increase provider service rates, and expand financial eligibility for Children's Health Insurance Program (CHIP) funded mental health services for children.

The most significant change between biennia is the $60.3 million increase in benefits and claims costs, which accounts for 80 percent of the total. Two noticeable reductions between biennia include statutory appropriation costs for debt service for the new state hospital and alcohol tax distributions to counties that are inadvertently included in base budget expenditures. Inclusion of these two expenditures masks $2 million of increase between the biennia.

The following narrative discussing the budget request for this division will be based on the amounts shown in budget tables that measure the change in the 2003 biennium request from the base budget. The incremental change between fiscal 2000 costs and the fiscal 2001 appropriation, while part of the increase in most present law adjustments that will be considered by the legislature, is not distinguished from the amount of the total change from fiscal 2000 expenditures.

Program Narrative

The AMDD 2003 biennium budget request is $82 million total funds and $18.3 million general fund higher than fiscal 2000 base budget expenditures. The majority of the increase is in mental health services - $66 million total funds and $18.4 million general fund. Reductions in other general fund budget requests offset the Medicaid services general fund increase. Addiction services increase $16 million over the biennium, largely due to an expansion of Medicaid funded services to include chemical dependency services.

Mental health services account for the largest share of the division budget - 88 percent in fiscal 2003. Addiction services comprise 11 percent and division administration is under 1 percent. The most significant budget requests in the division are:

- ?? $36 million total funds, including $6 million general fund and 27 FTE at MSH to continue services in excess of the 2001 biennium appropriation level;
- ?? Medicaid mental health services increases of $15 million, including $2.9 million general fund and 5.0 FTE;
- ?? Federal block grant increases in chemical dependency and mental health of $9.6 million;
- ?? Provider rate increases of $6.3 million, including $2.6 million in general fund and interest income from the tobacco settlement proceeds constitutional trust fund;
- ?? $5.8 million state special revenue and federal funds and 1.0 FTE to expand Medicaid services to cover chemical dependency services;
- ?? Pharmacy inflationary increases of $2.6 million general fund;
- ?? Overtime, holiday and shift differential pay at the state institutions of $2.1 million general fund;
- ?? $1.6 million in state special revenue to implement pharmacy rebates for MHSP and the MMHNCC;
- ?? $1 million in federal CHIP authority for an increase in financial eligibility for CHIP eligible children receiving MHSP services;
- ?? $0.4 million, including $0.3 million general fund and 6 FTE to determine eligibility for MHSP; and
- ?? $0.3 million general fund in fiscal 2002 for start-up costs for two behavioral health facilities for short-term crisis services for persons who are mentally ill or persons with a mental condition who are also chemically dependent.

Table 33-2

Addictive and Mental Disorders Division Base Expenditures and 2003 Biennium Budget Request

Budget Component	Fiscal 2000 Base Expenditures				Fiscal 2002 Budget Request				Fiscal 2003 Budget Request			
Function/Benefit	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total
Total Division												
Division Admin.	$ 570,746	$ 24,562	$ 192,808	$ 788,116	$ 581,504	$ 25,052	$ 196,404	$ 802,960	$ 587,266	$ 25,297	$ 198,242	$ 810,805
Mental Health*	45,907,217	3,339,105	37,966,034	87,212,356	54,217,590	4,237,396	58,351,835	116,806,821	55,880,151	4,557,068	63,295,849	123,733,068
Addiction Services	206,257	2,452,893	4,655,396	7,314,546	212,976	2,781,476	11,622,930	14,617,382	200,639	2,823,964	12,485,915	15,510,518
Total Division	$ 46,684,220	$ 5,816,560	$ 42,814,238	$ 95,315,018	$ 55,012,070	$ 7,043,924	$ 70,171,169	$ 132,227,163	$ 56,668,056	$ 7,406,329	$ 75,980,006	$ 140,054,391
Percent of Total	49.0%	6.1%	44.9%	100.0%	41.6%	5.3%	53.1%	100.0%	40.5%	5.3%	54.3%	100.0%
Annual Rate of Change from Base					8.6%	10.0%	28.0%	17.8%	6.7%	8.4%	21.1%	13.7%
State Institution Costs												
State Hospital	$ 15,827,699	$ 597,380	$ -	$ 16,425,079	$ 18,094,077	$ 597,380	$ -	$ 18,691,457	$ 18,265,429	$ 597,380	$ -	$ 18,862,809
Nursing Care Center	3,247,585	2,740,445	-	5,988,030	3,493,208	3,090,445	-	6,583,653	3,539,869	3,120,445	-	6,660,314
Chemical Dependency Center	-	2,395,259	-	2,395,259	-	1,955,232	742,324	2,697,556	-	1,667,501	1,072,284	2,739,785
Subtotal Institutions	$ 19,075,284	$ 5,733,084	$ -	$ 24,808,368	$ 21,587,285	$ 5,643,057	$ 742,324	$ 27,972,666	$ 21,805,298	$ 5,385,326	$ 1,072,284	$ 28,262,908
Percent of Total Division	40.9%	98.6%	0.0%	26.0%	39.2%	80.1%	1.1%	21.2%	38.5%	72.7%	1.4%	20.2%
Annual Rate of Change from Base					6.4%	-0.8%		6.2%	4.6%	-2.1%		4.4%
Grants												
Mental Health Services												
Community Grants	$ 936,425	$ -	$ -	$ 936,425	$ 936,425	$ -	$ -	$ 936,425	$ 936,425	$ -	$ -	$ 936,425
PATH/Homeless Servs.	99,103	-	306,034	405,137	99,103	-	306,034	405,137	99,103	-	306,034	405,137
Group Home Start Up	75,000	-	-	75,000	-	-	-	-	-	-	-	-
Addiction Services												
Community Services	-	-	4,078,841	4,078,841	-	-	4,310,787	4,310,787	-	-	3,978,971	3,978,971
Local Needs Asessment	-	-	-	-	-	-	3,142,483	3,142,483	-	-	3,142,483	3,142,483
Indigent Youth	162,610	-	-	162,610	-	-	-	-	-	-	-	-
Subtotal Grants	1,273,138	-	4,384,875	5,658,013	1,035,528	-	7,759,304	8,794,832	1,035,528	-	7,427,488	8,463,016
Percent of Total Division	2.7%	0.0%	10.2%	5.9%	1.9%	0.0%	11.1%	6.7%	1.8%	0.0%	9.8%	6.0%
Annual Rate of Change from Base					-9.8%		33.0%	24.7%	-6.7%		19.2%	14.4%
Benefits/Grants												
Medicaid												
Mental Health*	14,960,489	-	35,770,373	50,730,862	17,700,581	169,348	51,822,458	69,692,387	18,609,447	409,340	55,706,760	74,725,547
Addiction Srvs.	-	-	-	-	161,722	742,323	2,418,466	3,322,511	149,232	1,072,283	3,281,367	4,502,882
Mental Health Srvs Plan*	9,799,136	-	871,537	10,670,673	12,019,096	378,943	4,228,398	16,626,437	12,870,321	428,623	5,228,398	18,527,342
Subtotal Benefits	24,759,625	-	36,641,910	61,401,535	29,881,399	1,290,614	58,469,322	89,641,335	31,629,000	1,910,246	64,216,525	97,755,771
Percent of Total Division	53.0%	0.0%	85.6%	64.4%	54.3%	18.3%	83.3%	67.8%	55.8%	25.8%	84.5%	69.8%
Annual Rate of Change from Base					9.9%		26.3%	20.8%	8.5%		20.6%	16.8%

*The supplemental appropriation request for fiscal 2000 mental health services costs is not included in these totals.
If the supplemental request were included it would add $4 million general fund to the base year service for mental health services.

Table 33-02 shows the total division budget request and major components of the division budget compared to base budget expenditures. The table also shows the share of the total division budget for each major component and the compounded annual rates of change from fiscal 2000 to fiscal 2003 for the total budget and each major component.

The total division budget request grows 14 percent annually from the fiscal 2000 base budget through the fiscal 2003 budget request. The growth is driven by increases in benefit and grant expenditures. Federal spending increases the most, rising at an annual compounded rate of 21 percent. The growth in federal spending is related to increases in overall Medicaid costs, the increased federal match rate for Medicaid costs, and higher federal block grants.

State institutions costs account for about 20 percent of the fiscal 2003 budget request, and support for the mental health institutions constitutes 39 percent of the total general fund requested for the division in fiscal 2003.

Grants account for 6 percent of the total division budget and under 2 percent of the fiscal 2003 general fund budget request. Mental health community grants include contracts for crisis services and drop-in centers and the costs are fully funded from the general fund. The PATH grant is a federal grant for outreach services to identify homeless mentally ill people and help them find housing. PATH services are funded from the block grant and about $100,000 general fund. A $75,000 grant from the general fund was made to fund start-up of an 8-bed group home for adults in fiscal 2000. The grant is not continued in the 2003 biennium.

The two largest grants are for community services and local needs assessment for addiction services and prevention. Both are funded by federal block grants and together comprise 5 percent of the total division budget request in fiscal 2003. A small general fund grant of $162,610 funded residential treatment services for low-income youth in the base budget year. In the 2003 biennium, the Executive Budget shifts the general fund for this grant to pay part of the state Medicaid match for chemical dependency services.

Benefits expenditures account for 70 percent of the total fiscal 2003 budget request and 56 percent of the general fund request. Mental health Medicaid benefits are the most significant benefit expenditure, accounting for 53 percent of the fiscal 2003 budget request. The division began an expansion of Medicaid services to fund chemical dependency services in fiscal 2001 that is expected to grow to about $4.5 million total funds by fiscal 2003.

MHSP is the second largest benefit with 13 percent of the total division budget request in fiscal 2003. MHSP services are funded from the general fund and the federal mental health block grant in the base year budget. In the 2003 biennium, $7.4 million in federal CHIP matching funds are included to fund children's mental health services for children who are eligible for CHIP and MHSP. The federal CHIP funds are a direct offset to general fund expenditures, but despite the addition of a significant amount of new federal funding, the general fund cost of MHSP grows $4.8 million over the 2003 biennium.

Benefits are the most significant division expenditure and also the fastest growing expenditure. Benefits grow at annual compounded rate of 17 percent between fiscal 2000 and fiscal 2003. Grant expenditures increase about 14 percent annually over the same time period.

Legislative Finance Committee Interim Study

As noted in the agency summary, the Legislative Finance Committee (LFC) studied public mental health services during the interim as directed by HJR 35. In addition to recommending several bills, the LFC requested that the Health and Human Services Joint Appropriation Subcommittee:

- ?? Ensure that MHSP financial eligibility for children eligible for both MHSP and CHIP be established at the same level as financial eligibility for CHIP;
- ?? Review updated estimates to expand MHSP financial eligibility and cost sharing options initiated during the HJR 35 study;
- ?? Review the DPHHS calculation of the average cost of providing mental health services by system component and age of recipient, and the average cost of a high-end user of mental health services by system component and age of recipient;

?? Closely evaluate the appropriation request for MSH, and particularly the estimate of the average daily population (ADP) for the facility;
?? Review guidelines and implementation by DPHHS of providing federal Medicaid matching funds to local government for the cost of transporting Medicaid eligible persons to medical facilities, other than MSH; and
?? Review the DPHHS case management model that was to be developed in response to a request from the LFC.

Legislative staff requested that DPHHS present information to the appropriations subcommittee during hearings on the mental health services budget request.

Mental Health Consultants to AMDD
The 1999 legislature passed SB 534 in order to guide development of the mental health system after cancellation of the statewide managed care contract in late fiscal 1999. As part of that effort, the legislature enacted a requirement that DPHHS contract with consultants. Section 53-21-702, MCA requires DPHHS to:

> "contract with an independent professional consulting firm that is knowledgeable and experienced in developing managed mental health care systems. The department shall require, as part of the contract, that the consulting firm make regular reports to the Legislative Finance Committee and any other appropriate legislative interim committee. Reports must be made at least every 6 months and must include information about the development and implementation of the new mental health managed care system."

DPHHS contracted with a firm - Technical Assistance Collaborative (TAC). TAC assistance focused on three areas: review of system services and management information systems, development and implementation of outcome measures, and system recommendations. Reports covering the first two areas were completed in the fall of 2000 and the final draft of the report including system recommendations will be available December 31. Preliminary system recommendations include:

?? Strategic planning to develop a vision and focused guide for system development;
?? Assessment of services to identify service needs and gaps;
?? Development of a regional system of care;
?? Inclusion of state institutions in the regional system;
?? Implementation of a waiver of Medicaid regulations to provide funding flexibility and focused provider and service development;
?? Enhancing wrap around, community, and rehabilitative services rather than facility and bed-based services, including a voluntary or mandatory moratorium on out-of-state placement of children; and
?? Implementation of quality and outcome measures.

Legislative staff requested that AMDD review the consultant reports and recommendations and inform legislators about the actions that it would be taking with regard to the recommendations.

Intergovernmental Transfer Program
The division is implementing an intergovernmental transfer program to raise Medicaid rates paid for services provided by community mental health centers in a "frontier" county, which is a county with an average population density of less than 6 persons per square mile, according to the most recent census data issued U.S. Census Bureau. If a community mental health center receives county funds, the county can transfer funds to DPHHS to provide the non-federal share of Medicaid payments to raise frontier service rates. Medicaid payments may not exceed the upper payment limit for services based on Medicare cost reimbursement methodologies.

LFD ISSUE

The draft contracts that will implement the intergovernmental transfer program for community mental health centers require the centers to perform tasks that do not bear a direct relationship to performance of Medicaid services for which the centers will be reimbursed. Specifically draft contracts require centers to:

- ?? Provide services to residents of all frontier counties within its catchment area;
- ?? Provide 24-hour emergency response services throughout its catchment area;
- ?? Screen individuals being considered for admission to MSH; and
- ?? Continually work to educate county attorneys, district courts, and mental health providers throughout the catchment area and to maintain and enhance its relationships with those persons or entities for the purpose of achieving an effective pre-admission screening of individuals being considered for placement at MSH and their placement in the most integrated and least restrictive treatment setting.

The Health Care Financing Administration (HCFA) recently proposed rules to impose limits for reimbursement of services under intergovernmental transfers. HCFA had determined that some states used federal matching funds generated through such transfers for uses unrelated to Medicaid programs and to increase federal funding and offset the non-federal share of Medicaid program costs. The provisions included in the intergovernmental transfer program contracts for mental health services appear to mirror original federal concerns with such programs.

No other intergovernmental transfer programs initiated by the department require additional duties to be performed in return for enhanced Medicaid rates. In fact, most other programs, including AMDD in its later proposal for funding a frontier rate increase, acknowledge that providers located in rural areas need special support to ensure continuation of services. It is also unclear that the amount of revenue that will be generated under the proposal would be sufficient to support the duties enumerated in the contract.

The draft contract requires participating counties to remit funds for enchanced Medicaid rates at a time yet to be determined. The contract also specifies that once the match is fully expended, service rates will decline to the regular rate without enhancement. While that provision protects AMDD against a cost shift to the general fund, it also makes the proposal more difficult to administer and manage. Additionally, the contract does not specify that centers may forego performance of the duties enumerated in the contract once the enhanced funding is curtailed.

Legislative staff has asked AMDD to provide an estimate of the amount rates will be increased and the total revenue that could be generated by each center. It is also unclear whether entities participating in a fee-for-service Medicaid program can be required to perform services that may not be Medicaid eligible or for persons who may not be Medicaid eligible as a condition of receiving Medicaid funds.

Funding

The division is funded from general fund, state special revenue, federal block grants, and federal Medicaid funds. Alcohol and drug services are funded predominantly with earmarked alcohol tax and federal block grant funds,and a small amount of general fund. MCDC is funded with federal block grants and state special alcohol tax revenue. The mental health system is funded with state general fund, state special revenue, federal Medicaid funds, and a small federal block grant. The two state operated facilities that provide mental health services (MSH and MMHNCC) are funded with state general fund, and state special revenue.

Table 33-03 shows the funding for the 2003 biennium budget request compared to fiscal 2000 expenditures. General fund supports 41 percent of the fiscal 2003 budget request. About $43 million or 39 percent of the total general fund 2003 biennium budget request supports the two state mental health institutions, while $40 million or 36 percent matches Medicaid benefits and administrative costs and another $26 million or 24 percent of the total general fund supports MHSP services and the state CHIP match.

The two largest sources of state special revenue include federal Medicaid funds for reimbursement of eligible costs at the state mental health institutions and alcohol taxes. MMHNNC receives the most Medicaid reimbursement because Medicaid will pay only for services provided by an institution for mental disease for persons under the age of 22 or over the age of 65. Earmarked alcohol funds support MCDC and the state match for Medicaid chemical dependency services. Drug rebate revenue is added to fund drug costs supported by pharmacy rebates in MHSP and MMHNCC. The tobacco interest is anticipated interest income from the tobacco settlement constitutional trust fund.

Table 33-03
Addictive and Mental Disorders Division Funding Summary

Fund Source	Fiscal 2000 Actual	Executive Request Fiscal 2002	Executive Request Fiscal 2003	Percent of Total
General Fund	$46,684,220	$55,012,070	$56,668,056	40.5%
Percent of Total	49.0%	41.6%	40.5%	
State Special Revenue				
Managed Care Rev. MMHNCC	$ 2,734,476	$ 3,084,488	$ 3,114,488	2.2%
Earmarked Alcohol Funds	2,452,905	2,781,476	2,823,964	2.0%
Managed Care Rev. - MSH	552,126	552,126	552,126	0.4%
Drug Rebate Collections	0	378,943	428,623	0.3%
Tobacco Interest Constitutional Trust	0	70,742	308,300	0.2%
Match Private Funds	0	98,606	101,040	0.1%
MSH Canteen	41,209	41,209	41,209	0.0%
MMHNCC Donations	5,957	5,957	5,957	0.0%
MSH Donations	4,045	4,045	4,045	0.0%
Conference Donations	1,280	1,280	1,280	0.0%
Cost Allocation Funds	24,562	25,052	25,297	0.0%
Subtotal State Special Revenue	$5,816,560	$7,043,924	$7,406,329	5.3%
Percent of Total	6.1%	5.3%	5.3%	
Federal Funds				
Medicaid Benefits	$35,770,440	$54,240,968	$58,988,171	42.1%
Substance Abuse Block Grant	4,528,450	5,584,255	5,584,255	4.0%
ADAD Needs ASM Study	0	3,594,483	3,594,483	2.6%
CHIP Grant	0	3,200,000	4,200,000	3.0%
Youth CD Prevention - CSAP	0	0	0	0.0%
Mental Health - Homeless	306,034	306,034	306,034	0.2%
Mental Health Block Grant	871,537	1,028,398	1,028,398	0.7%
Medicaid Administration	1,018,049	2,020,627	2,080,423	1.5%
SAMSA Data Contract	62	0	0	0.0%
Misc. Mental Health Funds	126,946	0	0	0.0%
Cost Allocation Funds	192,720	196,404	198,242	0.1%
Subtotal Federal Funds	$42,814,238	$70,171,169	$75,980,006	54.3%
Percent of Total	44.9%	53.1%	54.3%	
Total Funds	$95,315,018	$132,227,163	$140,054,391	100%
Annual Rate of Change from 2000 Base		17.8%	13.7%	

LFD ISSUE

State statute directs that Medicaid payments for MSH and MMHNCC services must be deposited in the federal special revenue fund and may be appropriated to support the facilities (Section 53-1-413(4), MCA). The 1999 legislature adopted that change based on a request from DPHHS. It appears that Medicaid reimbursements for institutional reimbursements are not being recorded or expended in the correct fund type as directed by statute. The legislature could:

?? Direct DPHHS to correctly account for the funds;
?? Amend statute to correspond to DPHHS actions; and/or
?? Refer this issue to the Legislative Auditor for review and potential recommendation in the upcoming financial compliance audit.

Table 33-04 shows the fund balance of the earmarked alcohol tax received by DPHHS. The department receives an allocation of the liquor license tax, which accounts for the most significant share of tax proceeds, as well as a share of wine and beer taxes. A small amount of revenue is due to cost recovery at MCDC. Revenues are expected to grow by about 5 percent per year throughout the 2003 biennium.

The largest appropriation made from the account is for operation of MCDC. The amount declines from fiscal 2001 to the 2003 biennium because an increasing share of the MCDC is funded by the federal chemical dependency block grant and the alcohol funds that formerly supported MCDC will be used to fund the expansion of Medicaid to cover chemical dependency services.

Other state agency costs that are appropriated from the DPHHS allocation of alcohol taxes include:

?? Administrative functions within DPHHS for operation of the chemical dependency programs including licensure of local programs;

?? Equipment such as breathalyzers for use by highway patrolmen in the Department of Justice;

?? Treatment programs at Pine Hills School for Boys managed by the Department of Corrections; and

?? The Professional and Occupational Licensing Board for certification and licensure of chemical dependency counselors in the Department of Commerce.

Table 33-04
Earmarked Alcohol Tax Revenue and Expenditures
Fiscal 2000 Actuals Through Fiscal 2003 Budget Request

Revenue/Expenditures Fund Balance	Fiscal 2000	Fiscal 2001*	Fiscal 2002*	Fiscal 2003*	Percent of Total
Beginning Balance	$ 102,243	$ -	$ -	$ (0)	
Revenues					
Liquor License	$ 2,986,407	$ 3,134,000	$ 3,297,000	$ 3,487,000	67.8%
Beer Tax	840,281	876,000	913,000	953,000	18.5%
Wine Tax	547,706	571,000	597,000	623,000	12.1%
Cost Recovery for MCDC	74,150	76,755	79,360	81,965	1.6%
Total Revenue	$ 4,448,544	$ 4,657,755	$ 4,886,360	$ 5,144,965	32.2%
Annual Percent Change		4.7%	4.9%	5.3%	
Total Funds Available	$ 4,550,787	$ 4,657,755	$ 4,886,360	$ 5,144,965	
Disbursements					
CD Operations	$ 57,634	$ 60,000	$ 83,921	$ 84,180	1.6%
Cost Allocated Admin.	88,939	82,481	91,607	91,607	1.8%
MCDC	2,395,259	2,377,589	1,955,232	1,667,501	32.4%
Medicaid Services/Admin.	-	1,376	768,049	1,098,093	21.3%
Quality Assurance - Licensure	57,227	65,014	57,229	58,204	1.1%
Distribution to Counties**	1,595,451	1,726,772	1,530,074	1,747,180	34.0%
Pine Hills	25,523	25,523	25,523	25,523	0.5%
Justice - Equipment	303,202	300,912	303,205	303,205	5.9%
Dept. of Commerce - POL Board	27,552	18,088	71,520	69,472	1.4%
Total Disbursements	$ 4,550,787	$ 4,657,755	$ 4,886,360	$ 5,144,965	100.0%
Adjustments	$ -	$ -	$ -	$ -	
Ending Fund Balance	$ -	$ -	$ (0)	$ (0)	
Excess Above $1 Million Distribution to Counties			$ 530,075	$ 747,181	

*Estimated revenue is based on Revenue and Taxation Committee action and 2003 biennium costs are based on the Executive Budget request. Fiscal 2001 expenditures based on DPHHS budget status report 10/23/00 or the appropriated amount. Potential pay plan increases are not included.
**Distribution to counties is estimated to be total funds available after all other costs are paid.

Disbursements from the account should fully expend the revenues because the balance remaining after the legislature makes appropriations from the account is statutorily appropriated for distribution to counties for purposes pertaining to the problems of alcoholism (Section 53-24-206(3)(b) and (c), MCA). DPHHS did not transfer the full amount due to counties in fiscal 2000, leaving a balance of $102,243.

LFD ISSUE

Historic revenue distributions to counties from the alcohol tax proceeds allocated to DPHHS have been around $1 million, with some fluctuations, most notably due to a significant one-time increase in compliance with a legislative audit finding. If the legislature wanted to ensure that counties continued to receive $1 million or an increasing amount to cover inflation, there would still be some revenue left in the account available for appropriation. The Executive Budget request includes about $414,000 of general fund in the addictions treatment program during the 2003 biennium that could be offset by an appropriation from the alcohol tax proceeds. The general fund supports general operating costs of the program (about $51,000) and treatment for indigent youth ($162,610). The youth treatment appropriation is being shifted to fund part of the state match for the Medicaid expansion in the budget request. If the legislature were to offset that general fund, it would still leave an increase of almost $400,000 in fiscal 2002 and $550,000 in fiscal 2003 available for counties.

LFD COMMENT

Legislative staff identified an issue with respect to the amount of alcohol taxes that should be requested for the Department of Commerce. The correct amount should be $27,167 each year, about $43,000 less each year than requested in the Executive Budget. The reduction is necessary because the wrong percentages were used to determine the amount that should be allocated to the state special revenue alcohol tax. This issue will be addressed in the Natural Resources and Commerce Joint Appropriation Subcommittee.

Federal funds account for 54 percent of the fiscal 2003 budget request. The most significant funding source is Medicaid matching funds for administration and services with $61 million and accounting for 44 percent of the total division budget request in fiscal 2003. Block grants for chemical dependency services and needs assessment, CHIP federal matching funds, and mental health services are other significant federal funding sources.

LFD ISSUE

The new state hospital recently attained licensure as an inpatient psychiatric hospital. Previously, the old hospital had been licensed as a nursing home and not as a hospital. This change will impact the Medicaid revenue available to support MSH and medical costs paid by MSH, and may impact revenues to the general fund. Additionally, in order to meet and maintain licensure as an inpatient psychiatric hospital under Medicaid and Medicare, institutions must maintain enhanced staffing requirements.

Due to hospital licensure, MSH can bill Medicaid for hospital services for persons under the age of 21 and over the age of 65. MSH can also begin billing Medicare for services for Medicare eligible adults. Previously, MSH could only bill Medicaid for nursing care services for persons over the age of 65. In order to be reimbursed for MSH services, the services must provide active treatment to improve or maintain a person's condition. Reimbursement is not provided for care that is custodial.

Medicaid eligibility was routinely closed for persons under 21 who were admitted to MSH. As of October 31, 2000, there were 10 persons under 21 who were admitted to MSH whose Medicaid eligibility had been closed. If the eligibility had been maintained, MSH could bill Medicaid for services for those individuals.

As noted previously, Medicaid revenues supporting MSH and MMHNCC may be appropriated for the support of MSH and MMHNCC and recorded in the federal fund type. However, all revenues from both facilities are first pledged to support the debt service for the new state hospital (Section 90-7-220, MCA). Revenue sources other than Medicaid include: Medicare, insurance payments, Indian Health Services funds, county funds, and private payments. All revenues in excess of debt service, except Medicaid payments are to be deposited to the general fund (Section 53-1-413, MCA). Only Medicaid revenue in excess of debt service may be appropriated to support MSH and MMHNCC.

AMDD recently became aware of another change due to MSH hospital licensure: payment of medical services for MSH residents provided by other hospitals and doctors. Dental services or hospital services for a broken bone would be examples of "outside" services. Previously, other providers billed Medicaid or Medicare directly for such services. Now MSH must pay those costs. MSH will be reimbursed for outside medical costs for Medicare eligible persons, but must pay outside medical costs for Medicaid eligible persons. MSH recovers costs from Medicare by "bundling" the cost of outside medical services with the cost for MSH services. MSH may not recover outside medical costs from Medicaid.

The Executive Budget does not include changes to Medicaid revenue supporting either MSH or MMHNCC. Nor does it include changes due to payment of outside medical costs.

There are several issues that the legislature may wish to consider in establishing the appropriation for MSH and MMHNCC:

?? The level of Medicaid revenues that should be available to support MSH and MMHNCC;
?? The level of outside medical costs that MSH may incur;
?? The potential changes in Medicare revenue;
?? The total level of revenue generated by MSH and MMHNCC in relationship to debt service payments; and
?? Allocation of other revenues in excess of debt service to support the institutions.

LFD ISSUE (Continued) The legislature could consider whether to allocate revenues in excess of debt service, other than Medicaid, to the support of MSH and MMHNCC. Funding institutions from revenues that they generate can establish a closer link between delivering services and ensuring that appropriate payors are billed. This change would require an amendment to statute.

Legislative and AMDD staff will develop estimates related to revenue and medical services cost issues.

Legislative staff requested that AMDD present information to the appropriations subcommittee on whether it can reinstate Medicaid eligibility for MSH residents whose eligibility was terminated on admission and if eligibility can be reinstated, how soon that could be done. Legislative staff have also requested that AMDD clarify what the enhanced staffing requirements are to maintain hospital licensure and whether those requirements are satisfied by the present law adjustment that funds 27 FTE for MSH.

LFD ISSUE As noted in the agency overview, the legislature may wish to consider the overall appropriation for CHIP federal funds within DPHHS. It appears that the federal CHIP funding used in the MHSP is capped at a specific amount rather than tied to the actual costs of providing expanded mental health services in the CHIP program. The cap is most apparent in the proposed expansion of CHIP financial eligibility to 175 percent of the federal poverty level.

Capping the federal CHIP funds expended for MHSP extends the life of the CHIP grant, allowing programs funded from the grant to continue as long as possible. However, the legislature may wish to evaluate CHIP funding and determine whether it agrees with the policies tacitly established in the Executive Budget. If the legislature agrees that federal CHIP funds for mental health services costs should be capped at a certain amount each year, it may want to enact statute or appropriate conditions in HB 2 to prohibit use of CHIP funds beyond a certain level. If mental health services general fund costs were to expand beyond executive projections during the 2003 biennium, there could be a financial incentive for DPHHS to expand the use of federal CHIP funds above the level anticipated by the 2001 legislature.

LFD COMMENT The state match for the Medicaid expansion to cover chemical dependency services is funded from alcohol tax proceeds. As noted previously, the bulk of HB 2 appropriations from the alcohol tax have supported MCDC and the federal block grant supported contracts with community service providers. In order to free up state funds for match, block grant funds will be allocated to MCDC from the community service contracts and alcohol funds will be used to match federal Medicaid funds. The Medicaid expansion is discussed in greater detail in the addiction services and prevention sub- program.

Present Law Adjustments	Fiscal 2002					Fiscal 2003				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					1,003,453					1,121,118
Vacancy Savings					(563,999)					(567,529)
Inflation/Deflation					79,592					60,161
Fixed Costs					64,406					70,332
Total Statewide Present Law Adjustments					**$583,452**					**$684,082**
DP 1 - Mental Health Supplemental and Cost Containment	27.00	2,977,001	0	14,937,274	17,914,275	27.00	2,962,870	0	14,915,838	17,878,708
DP 2 - FY00-FY01 PRI - PASARR	0.00	143	0	429	572	0.00	143	0	429	572
DP 3 - FY00-FY01 PRI - Indigent Youth Alcohol Treatment	0.00	1,626	0	0	1,626	0.00	1,626	0	0	1,626
DP 4 - FY00-FY01 PRI - Medicaid	0.00	168,043	0	451,583	619,626	0.00	167,175	0	452,451	619,626
DP 5 - FY00-FY01 PRI - MHSP	0.00	127,666	0	0	127,666	0.00	127,666	0	0	127,666
DP 26 - Mental Health Block Grant Increase	0.00	0	0	156,861	156,861	0.00	0	0	156,861	156,861
DP 27 - MCDC Food and Rent Inflation 00-01	0.00	0	26,778	0	26,778	0.00	0	26,778	0	26,778
DP 28 - MCDC Holiday, OT, Differential Pay	0.00	0	48,636	0	48,636	0.00	0	50,095	0	50,095
DP 29 - MCDC Food and Rent Inflation FY02 & FY03	0.00	0	27,755	0	27,755	0.00	0	56,523	0	56,523
DP 38 - Frontier Rate Annualization	0.00	193,829	98,606	264,984	557,419	0.00	199,644	101,040	273,458	574,142
DP 47 - Caseload/Utilization Increase MHSP Pharmacy	0.00	138,114	0	0	138,114	0.00	138,114	0	0	138,114
DP 50 - Caseload/Utilization Increase - MHSP Benefits	0.00	157,404	0	0	157,404	0.00	157,404	0	0	157,404
DP 51 - Medicaid Base Adjustment for FY00	0.00	(386,909)	0	386,909	0	0.00	(462,142)	0	462,142	0
DP 52 - Caseload/Utilization Increase - Medicaid	0.00	1,330,990	0	4,366,958	5,697,948	0.00	2,050,085	0	6,771,673	8,821,758
DP 72 - MHSP Pharmacy Price Inflation	0.00	786,317	0	0	786,317	0.00	1,233,432	0	0	1,233,432
DP 74 - MMHNCC Holiday, OT, Differential Pa	0.00	271,028	0	0	271,028	0.00	279,159	0	0	279,159
DP 76 - MSH Holiday, OT, Differential Pay	0.00	733,374	0	0	733,374	0.00	755,375	0	0	755,375
DP 82 - Family & Consumer Srvs Training	0.00	46,875	0	28,125	75,000	0.00	46,875	0	28,125	75,000
DP 86 - Fund MHSP Pharmacy Rebates	0.00	0	378,943	0	378,943	0.00	0	428,623	0	428,623
DP 199 - MHSP Eligibility Staffing	6.00	152,709	0	50,903	203,612	6.00	153,203	0	51,067	204,270
DP 988 - Annualization of Utilization Review & Management	0.00	214,324	0	841,063	1,055,387	0.00	246,991	0	898,511	1,145,502
DP 989 - SABHRS - MEDICAID BASE ADJUSTMENT	0.00	0	0	(1,983,318)	(1,983,318)	0.00	0	0	(1,983,318)	(1,983,318)
DP 992 - Discontinue OJJDP Combating Underage Drinking	0.00	0	0	(126,946)	(126,946)	0.00	0	0	(126,946)	(126,946)
DP 993 - MMHNCC Medicaid Patient Pharmacy State Special	0.00	0	350,000	0	350,000	0.00	0	380,000	0	380,000
DP 994 - Substance Abuse Prevention & Treatment Block Grant	0.00	0	0	974,270	974,270	0.00	0	0	972,414	972,414
DP 995 - Continue Community Incentive Grant	5.00	0	0	3,649,490	3,649,490	5.00	0	0	3,650,702	3,650,702
DP 997 - MCDC Pharmacy Cost Inflation	0.00	0	22,829	0	22,829	0.00	0	25,608	0	25,608
DP 998 - MMHNCC Pharmacy Cost Inflation	0.00	43,125	0	0	43,125	0.00	60,839	0	0	60,839
DP 999 - MSH Pharmacy Cost Inflation	0.00	171,102	0	0	171,102	0.00	256,528	0	0	256,528
Total Other Present Law Adjustments	**38.00**	**$7,126,761**	**$953,547**	**$23,998,585**	**$32,078,893**	**38.00**	**$8,374,987**	**$1,068,667**	**$26,523,407**	**$35,967,061**
Grand Total All Present Law Adjustments					**$32,662,345**					**$36,651,143**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

Present law adjustments add 38 FTE and $69 million total funds and $15.5 million general fund to the 2003 biennium division budget. The most significant adjustment includes 27 FTE and $35.8 million total funds, with $6 million general fund, to support ongoing mental health services costs that were above the level appropriated for the 2001 biennium. DPHHS has also requested a 2001 biennium appropriation of $31.1 million total funds, including $11.2 million general fund in HB 3, the supplemental appropriations bill. Adjustments included in HB 3 and the Executive Budget request for 2001 biennium cost over-runs in mental health services total $17.2 million general fund. Each present law adjustment is discussed in conjunction with the specific sub-program function: mental health services; addiction treatment and prevention; and division administration.

New Proposals

	Fiscal 2002					Fiscal 2003				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 117 - Refinance Chemical Dependency Program										
33	1.00	(4,978)	25,725	2,444,192	2,464,939	1.00	(22,469)	25,809	3,307,177	3,310,517
DP 130 - Provider Rate Increases 02-03 - Medicaid										
33	0.00	183,843	70,742	684,149	938,734	0.00	459,109	308,300	2,076,954	2,844,363
DP 131 - Psychiatrist Access Rate Increase										
33	0.00	88,285	0	143,546	231,831	0.00	102,309	0	167,189	269,498
DP 136 - Provider Rate Increase - PASARR										
33	0.00	217	0	650	867	0.00	656	0	1,969	2,625
DP 137 - Provider Rate Increase - MHSP										
33	0.00	193,414	0	0	193,414	0.00	586,043	0	0	586,043
DP 138 - Provider Rate Increase - Indigent Y										
33	0.00	2,464	0	0	2,464	0.00	7,465	0	0	7,465
DP 174 - Behavioral Health Facilities Start-Up										
33	0.00	350,000	0	0	350,000	0.00	0	0	0	0
DP 193 - Law Enforcement & Criminal Justice										
33	1.00	42,219	0	25,332	67,551	1.00	42,324	0	25,395	67,719
DP 987 - Expansion of CHIP Eligibility to 175% FPL										
33	0.00	0	0	0	0	0.00	0	0	1,000,000	1,000,000
Total	**2.00**	**$855,464**	**$96,467**	**$3,297,869**	**$4,249,800**	**2.00**	**$1,175,437**	**$334,109**	**$6,578,684**	**$8,088,230**

New Proposals

New proposals add 2.0 FTE, $12.3 million total funds and $2 million general fund over the 2003 biennium. The most significant new proposals increase Medicaid provider rates, expand Medicaid services to cover chemical dependency services, and expand financial eligibility for the CHIP program from 150 to 175 percent of the federal poverty level ($25,575 to $29,838 for a family of four in 2000).

Sub-Program Details

Mental Health 01

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	485.07	33.00	1.00	519.07	33.00	1.00	519.07	519.07
Personal Services	17,531,571	2,415,068	47,051	19,993,690	2,548,002	47,219	20,126,792	40,120,482
Operating Expenses	6,661,039	1,918,690	370,567	8,950,296	2,126,012	22,325	8,809,376	17,759,672
Equipment	151,247	0	0	151,247	0	0	151,247	302,494
Local Assistance	0	0	0	0	0	0	0	0
Grants	1,416,562	(75,000)	0	1,341,562	(75,000)	0	1,341,562	2,683,124
Benefits & Claims	61,401,535	23,553,310	1,363,979	86,318,824	27,151,450	4,699,904	93,252,889	179,571,713
Transfers	0	0	0	0	0	0	0	0
Debt Service	50,402	0	800	51,202	0	800	51,202	102,404
Total Costs	**$87,212,356**	**$27,812,068**	**$1,782,397**	**$116,806,821**	**$31,750,464**	**$4,770,248**	**$123,733,068**	**$240,539,889**
General Fund	45,907,217	7,452,395	857,978	54,217,590	8,782,493	1,190,441	55,880,151	110,097,741
State/Other Special	3,339,105	827,549	70,742	4,237,396	909,663	308,300	4,557,068	8,794,464
Federal Special	37,966,034	19,532,124	853,677	58,351,835	22,058,308	3,271,507	63,295,849	121,647,684
Total Funds	**$87,212,356**	**$27,812,068**	**$1,782,397**	**$116,806,821**	**$31,750,464**	**$4,770,248**	**$123,733,068**	**$240,539,889**

The mental health services function includes state institutional and community mental health services for adults and residential and community mental health services for children. MSH and MMHNCC are state institutions funded from general fund and Medicaid funds. Community services are funded from Medicaid and general fund for Medicaid eligible adults and children and from the MHSP program for adults with a serious and disabling mental illness, and children who are seriously emotionally disturbed and whose families have incomes below 150 percent of the federal poverty level.

Table 33-05
Total Present Law Adjustments due to 2001 Biennium Cost Over-Run
Mental Health Services

Service, Present Law Adjustments, Base	Fiscal 2002 General Fund	Fiscal 2002 Total Funds	Fiscal 2003 General Fund	Fiscal 2003 Total Funds
Medicaid Services				
Base Expenditures*	$14,960,489	$50,730,906	$14,960,489	$50,730,906
Present Law Adjustments				
DP 1 - Supplemental	$1,390,709	$13,127,983	$1,372,957	$13,088,795
DP 4 - 00-01 Prov. Rate	168,043	619,626	167,175	619,626
DP 38 - Frontier Rate	98,605	363,589	74,899	374,497
DP 51- Funding Adj.	(386,909)	0	(462,142)	0
DP 52 - Caseload	1,330,990	5,697,948	2,050,085	8,821,758
DP 989 - SABHRS Adj.	0	(1,983,318)	0	(1,983,318)
Total Medicaid PL Adj.	$2,601,438	$17,825,828	$3,202,974	$20,921,358
Total Present Law Request	$17,561,927	$68,556,734	$18,163,463	$71,652,264
Percent Increase	14.8%	26.0%	17.6%	29.2%
MHSP				
Base Expenditures*	$10,670,673	$10,670,673	$10,670,673	$10,670,673
Present Law Adjustments				
DP 1 - Supplemental	$588,347	$3,788,347	$588,347	$3,788,347
DP 5 - 00-01 Prov. Rate	127,666	127,666	127,666	127,666
DP 38 - Frontier Rate	95,224	193,830	124,745	199,645
DP 47 - 00-01 Pharmacy	138,114	138,114	138,114	138,114
DP 50 - Caseload Increase	157,404	157,404	157,404	157,404
DP 72 - 03 Pharmacy Infl.	786,317	786,317	1,233,432	1,233,432
DP 86 - Pharmacy Rebates	0	378,943	0	428,623
Total MHSP PL Adj.	$1,893,072	$5,570,621	$2,369,708	$6,073,231
Total Present Law Request	$12,563,745	$16,241,294	$13,040,381	$16,743,904
Percent Increase	15.1%	34.3%	18.2%	36.3%
Montana State Hospital				
Base Expenditures*	$15,827,699	$16,425,079	$15,827,699	$16,425,079
Present Law Adjustments				
Statewide Adjustments	$363,957	$363,957	$424,261	$424,261
DP 1 - Supplemental	997,945	997,945	1,001,566	1,001,566
DP 76 - Overtime Pay	733,374	733,374	755,375	755,375
DP 999 - Pharmacy Infl.	171,102	171,102	256,528	256,528
Total State Hospital PL Adj.	$1,902,421	$1,902,421	$2,013,469	$2,013,469
Total Present Law Request	$17,730,120	$18,327,500	$17,841,168	$18,438,548
Percent Increase	10.7%	10.4%	11.3%	10.9%

*Base budget costs do not include the fiscal 2000 supplemental appropriation costs. Such costs are removed from base expenditures. DP 1 requests and allocates the 2001 biennium cost over-runs among mental health services components.

Table 33-05 shows the total present law adjustments for mental health services that experienced cost over-runs during the 2001 biennium: Medicaid funded services; MHSP; and MSH. There are 15 separate present law adjustments for these 3 components of the mental health services system, including 1 present law adjustment that allocates $6 million general fund over the biennium among these service components.

Table 33-05 provides a summary of the total present law adjustment requested by the executive to continue these service components at the fiscal 2000 level. If this division budget request had been presented in a way comparable to other Medicaid and major benefits services, items such as annualization of 2001 biennium provider rate increases approved by the legislature, inflation in pharmacy costs, and caseload growth in the 2001 biennium would have been combined into a single present law adjustment. However, the disaggregation provides opportunities for the legislature to understand the incremental change in the present law budget due to various issues.

LFD ISSUE

The Executive Budget request for MHSP is presented in terms and proposals similar to managing an entitlement program, in which all persons meeting eligibility criteria are entitled to services, rather than a program with capped enrollment, where persons meeting eligibility criteria are placed on a waiting list until adequate funding is available to fund the cost of services for them. For instance, some decision packages request funding for caseload increases during the time when enrollment was capped.

In order for the legislature to evaluate the relationship between services and cost of the MHSP program, legislative staff has requested that AMDD prepare an analysis of the average number of slots by type (adult and child) and the average cost of each slot for fiscal 2001, fiscal 2002, and fiscal 2003 to explain the Executive Budget request. The legislature will be able to review the MSHP budget from a more unified perspective. Legislative and DPHHS staff will work together in establishing the data.

LFD COMMENT

The MSH and MMHNCC adjusted base budgets are funded partially with Medicaid funds. The MSH base budget is funded 3.6 percent from Medicaid reimbursements and the MMHNCC share is 45.8 percent. Medicaid reimbursement is held static from base expenditures. As noted in the division overview, hospital licensure of MSH will impact the level of Medicaid revenue generated by MSH. Since some nursing care residents of MSH will likely be transferred to MMHNCC, the level of Medicaid reimbursement for MMHNCC could also be impacted.

Since the daily rate billed to Medicaid rises as the institution costs rise, the amount that can be billed to Medicaid should also increase. After legislative review of MSH hospital licensure and the potential changes in Medicare and Medicaid revenue, the appropriate level of Medicaid reimbursement should be more evident. If the facilities could still generate Medicaid revenue proportional to the base budget, the legislature could reduce general fund costs by about $100,000 over the biennium. The relationship of Medicaid funding in the base budget to the potential general fund offset is also discussed in relation to each present law adjustment and new proposal where applicable.

LFD COMMENT

As the legislature considers the present law adjustments for mental health services, it could choose to combine adjustments for items that it considered and approved in the 1999 session and those usually recognized as typical present law adjustments. For instance, the legislature could combine DP 4, DP 51, DP 52, and DP 989 for Medicaid services. Those adjustments would include caseload increases, annualization of the provider rate increase approved and funded by the 1999 legislature, and the change in the state Medicaid match rate. Similarly, DP 5, DP 47, and DP 72 could be combined for MHSP services. Other present law adjustments for Medicaid and MHSP services are those that were initiated by DPHHS and not necessarily considered or approved by the 1999 legislature.

LFD COMMENT

Vacancy savings of 2.8 percent is taken against personal services in MSH and MMHNCC. Since state institutions must be staffed 24 hours per day, vacancy savings can be difficult to achieve. However, there is a $1 million general fund contingency fund included in HB 13 (pay plan bill) that agencies can access if they are unable to meet vacancy savings requirements.

Present Law Adjustments

	Fiscal 2002					Fiscal 2003				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					714,497					816,067
Vacancy Savings					(494,388)					(497,435)
Inflation/Deflation					78,455					57,324
Fixed Costs					59,049					64,247
Total Statewide Present Law Adjustments					**$357,613**					**$440,203**
DP 1 - Mental Health Supplemental and Cost Containment	27.00	2,977,001	0	14,937,274	17,914,275	27.00	2,962,870	0	14,915,838	17,878,708
DP 2 - FY00-FY01 PRI - PASARR	0.00	143	0	429	572	0.00	143	0	429	572
DP 4 - FY00-FY01 PRI - Medicaid	0.00	168,043	0	451,583	619,626	0.00	167,175	0	452,451	619,626
DP 5 - FY00-FY01 PRI - MHSP	0.00	127,666	0	0	127,666	0.00	127,666	0	0	127,666
DP 26 - Mental Health Block Grant Increase	0.00	0	0	156,861	156,861	0.00	0	0	156,861	156,861
DP 38 - Frontier Rate Annualization	0.00	193,829	98,606	264,984	557,419	0.00	199,644	101,040	273,458	574,142
DP 47 - Caseload/Utilization Increase MHSP Pharmacy	0.00	138,114	0	0	138,114	0.00	138,114	0	0	138,114
DP 50 - Caseload/Utilization Increase - MHSP Benefits	0.00	157,404	0	0	157,404	0.00	157,404	0	0	157,404
DP 51 - Medicaid Base Adjustment for FY00	0.00	(386,909)	0	386,909	0	0.00	(462,142)	0	462,142	0
DP 52 - Caseload/Utilization Increase - Medicaid	0.00	1,330,990	0	4,366,958	5,697,948	0.00	2,050,085	0	6,771,673	8,821,758
DP 72 - MHSP Pharmacy Price Inflation	0.00	786,317	0	0	786,317	0.00	1,233,432	0	0	1,233,432
DP 74 - MMHNCC Holiday, OT, Differential Pa	0.00	271,028	0	0	271,028	0.00	279,159	0	0	279,159
DP 76 - MSH Holiday, OT, Differential Pay	0.00	733,374	0	0	733,374	0.00	755,375	0	0	755,375
DP 82 - Family & Consumer Srvs Training	0.00	46,875	0	28,125	75,000	0.00	46,875	0	28,125	75,000
DP 86 - Fund MHSP Pharmacy Rebates	0.00	0	378,943	0	378,943	0.00	0	428,623	0	428,623
DP 199 - MHSP Eligibility Staffing	6.00	152,709	0	50,903	203,612	6.00	153,203	0	51,067	204,270
DP 988 - Annualization of Utilization Review & Management	0.00	214,324	0	841,063	1,055,387	0.00	246,991	0	898,511	1,145,502
DP 989 - SABHRS - MEDICAID BASE ADJUSTMENT	0.00	0	0	(1,983,318)	(1,983,318)	0.00	0	0	(1,983,318)	(1,983,318)
DP 993 - MMHNCC Medicaid Patient Pharmacy State Special	0.00	0	350,000	0	350,000	0.00	0	380,000	0	380,000
DP 998 - MMHNCC Pharmacy Cost Inflation	0.00	43,125	0	0	43,125	0.00	60,839	0	0	60,839
DP 999 - MSH Pharmacy Cost Inflation	0.00	171,102	0	0	171,102	0.00	256,528	0	0	256,528
Total Other Present Law Adjustments	**33.00**	**$7,125,135**	**$827,549**	**$19,501,771**	**$27,454,455**	**33.00**	**$8,373,361**	**$909,663**	**$22,027,237**	**$31,310,261**
Grand Total All Present Law Adjustments					**$27,812,068**					**$31,750,464**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Mental Health Supplemental and Cost - The Executive Budget includes $35.8 million total funds including $6 million general fund over the biennium to continue services at the fiscal 2000 level. (DPHHS is also requesting a $21.2 million total ($11.2 million general fund) supplemental appropriation in HB 3.) There is a more detailed description of the supplemental and cost containment measures included in the agency narrative. Table 33-06 shows the costs and funding for the various functions supported by this present law adjustment.

Table 33-06
Allocation of the Mental Health Supplemental and Cost Containment
Present Law Adjustment DP 1

Service, Present Law Adjustments, Cost Reduction	Fiscal 2002 General Fund	Fiscal 2002 Federal Funds	Fiscal 2002 Total	Fiscal 2003 General Fund	Fiscal 2003 Federal Funds	Fiscal 2003 Total	Percent of Total
Medicaid Services							
Increased Costs							
2000 Transfer/Supplemental	$2,270,617	$6,101,866	$8,372,483	$2,241,634	$6,066,868	$8,308,501	
2000 Cost Included in HB 3	0	8,000,000	8,000,000	0	8,000,000	8,000,000	
Subtotal Increased Cost	$2,270,617	$14,101,866	$16,372,483	$2,241,634	$14,066,868	$16,308,501	
Less Cost Reductions:							
Partial Hospitalization	($187,960)	($505,109)	($693,069)	($185,561)	($502,213)	($687,773)	
Increased Utilization Review	(691,948)	(1,859,483)	(2,551,431)	(683,116)	(1,848,817)	(2,531,933)	
Subtotal Reductions	($879,908)	($2,364,592)	($3,244,500)	($868,677)	($2,351,030)	($3,219,706)	
Net Cost Increase	$1,390,709	$11,737,274	$13,127,983	$1,372,957	$11,715,838	$13,088,795	73.2%
Percent of Total	46.7%	78.6%	73.3%	46.3%	78.5%	73.2%	
Mental Health Services Plan Benefits							
Increased Costs							
2000 Transfer/Supplemental	$1,933,572	$0	$1,933,572	$1,933,572	$0	$1,933,572	
2000 Cost Included in HB 3	2,000,000	0	2,000,000	2,000,000	0	2,000,000	
Subtotal Increased Cost	$3,933,572	$0	$3,933,572	$3,933,572	$0	$3,933,572	
Less Cost Reductions/Refinance:							
CHIP Refinance	($3,200,000)	$3,200,000	$0	($3,200,000)	$3,200,000	$0	
Partial Hospitalization	(91,000)	0	(91,000)	(91,000)	0	(91,000)	
Increased Utilization Review	(54,225)	0	(54,225)	(54,225)	0	(54,225)	
Subtotal Reductions	($3,345,225)	$3,200,000	($145,225)	($3,345,225)	$3,200,000	($145,225)	
Net Cost Reduction	$588,347	$3,200,000	$3,788,347	$588,347	$3,200,000	$3,788,347	21.2%
Percent of Total	19.8%	21.4%	21.1%	19.9%	21.5%	21.2%	
Montana State Hospital							
27 FTE - Operating Cost	$997,945	$0	$997,945	$1,001,566	$0	$1,001,566	5.6%
Percent of Total	33.5%	0.0%	5.6%	33.8%	0.0%	5.6%	
Total Present Law Adjustment	$2,977,001	$14,937,274	$17,914,275	$2,962,870	$14,915,838	$17,878,708	100.0%

Allocation of DP 1

LFD COMMENT

The MSH present law adjustment adds 27 FTE and $2 million general fund over the biennium. The staffing increase is requested because the MSH appropriation was based on an average daily population of 135, compared to the actual population of 158 during fiscal 2000. The 2001 biennium appropriation for MSH was based on the executive request, which DPHHS staff testified was adequate to fund operations and that DPHHS would manage MSH and community mental health services to achieve 135 per day. This proposal will make permanent 27 FTE currently in modified positions. Adding 27 FTE will support DPHHS estimated average daily population for MSH of 165.

LFD ISSUE

There are several issues related to the present law adjustment to fund services at the fiscal 2000 level:

- Use of CHIP funds to offset cost over-runs in fiscal 2001;
- CHIP federal offset in fiscal 2000 and the 2003 biennium;
- The average daily population of MSH during fiscal 2001; and
- Results of cost containment measures.

Use of CHIP Funds to Offset Cost Over-Runs in Fiscal 2001

DPHHS expanded the CHIP program by adding enhanced mental health services for CHIP eligible children who are also determined to be seriously emotionally disturbed. Previously, these services had been available through MHSP funded at 100 percent general fund. Adding MHSP services as a component of the total CHIP program allows MHSP services for CHIP-eligible children to be funded 20 percent general fund and 80 percent federal funds instead of 100 percent from the general fund.

Additionally, all MHSP service costs should first be billed to and funded entirely through the regular CHIP health insurance plan until the CHIP insurance plan mental health services benefit caps are reached. The service caps include such limitations as the number of inpatient hospital days and the number of outpatient counseling sessions that a child can receive, unless the child has one of the following diagnoses, at which point the plan limits would be the same as for physical health services. The diagnoses are: schizophrenia; schizoaffective disorder; bipolar disorder; major depression; panic disorder; obsessive-compulsive disorder; and autism. MHSP does not have such service caps.

As of December 1, 2000, no MHSP costs had been recorded against the fiscal 2001 federal CHIP appropriation in the accounting system. Since the MHSP claims payment system cannot record costs against the federal CHIP appropriation, the division must calculate and book the federal CHIP share of MHSP costs as a separate accounting entry. Legislative staff requested that DPHHS provide the following information for appropriation subcommittee review:

- The total amount of fiscal 2001 costs that have been offset by CHIP funds through December 2000 or January 2001; and
- The amount of MHSP costs that can be or have been billed to the regular CHIP insurance premium plan.

The legislature should be able to determine whether the projected level of federal CHIP offset will be achieved. If federal CHIP funding is below the level anticipated, the legislature may wish to ask DPHHS whether it will ask for a higher supplemental, and if not, what additional cost-saving measures it will implement.

CHIP Federal Funds Offset in Fiscal 2000 and the 2003 Biennium

Prior to the CHIP expansion, DPHHS determined that MHSP services provided to CHIP eligible children had not been billed to the CHIP insurance plan. As noted previously, the CHIP insurance plan should fund 100 percent of the MHSP services provided to CHIP eligible children until the CHIP insurance plan service caps are exceeded.

DPHHS also discovered that fewer than 1/3 of MHSP eligible children were enrolled in the CHIP program as of July 2000. Since financial eligibility for the two programs is similar, the level of dual enrollment appeared to be low. DPHHS implemented an administrative rule requiring that in order to be eligible for MHSP a child must have applied for CHIP. Families were given 60 days from emergency rule implementation in early September to apply for CHIP in order to continue MHSP eligibility. At the end of October, 180 children were disenrolled from MHSP for failure to apply for CHIP.

Administration of the Enrollment Cap

A major cost savings initiative implemented by DPHHS was to cap enrollment in MHSP. The initial cap was 3,400 adult slots and 900 children slots. The cap was modified to 3,515 adults and 847 children in November 2000. The average annual cost per slot was initially calculated by DPHHS to be $2,952 for an adult and $7,332 for a child and the Executive Budget is based on estimates of $3,420 for each adult and $7,704 for each child in fiscal 2003.

LFD COMMENT

The average cost per child is higher because of the service mix, which includes residential psychiatric care. The comparable service for adults is provided by MSH, which is not included in the MHSP cost. If it were, the average cost per adult slot would be $8,400 in fiscal 2003 based on the Executive Budget request.

The annual cost increase for MHSP services for a child is about 2.5 percent and the annual increase for an adult is 7.6 percent. The cost of serving an adult grows faster because of inflation in drug costs. Over 98 percent of MHSP prescription costs are for adults.

Average Daily Population of MSH

The Executive Budget request for MSH is based on an average daily population of 165, which is 7 persons higher than the base budget expenditures. The MSH population has averaged 164 in July, 186 in August, 180 in October 2000 and 183 in November 2000.

The LFC requested that the Health and Human Services Joint Appropriation Subcommittee closely evaluate the MSH budget request with respect to the projected average daily population. The LFC acknowledged that shortages in the MSH budget are likely to be made up through reductions in the budget for community services unless DPHHS requests a supplemental appropriation. Evaluating the adequacy of the budget request during the session gives the legislature the opportunity to establish appropriate policies and budget levels.

LFD ISSUE

The Executive Budget request for MSH is based on 165 average daily population, which is 18 fewer than the daily population in November 2000. Recent press articles publicized a short-term policy restricting emergency admissions, which indicates that MSH has been nearing full capacity in fiscal 2001.

DPHHS has testified that the new state hospital has 190 beds. However, the number of available beds is not necessarily a good indicator that the hospital has adequate capacity. For instance, the number of forensic patients has exceeded the number of forensic beds available since the new hospital opened. (The majority of the forensic population is persons who have committed crimes, but are determined mentally ill and committed to MSH by a court. The forensic population also includes a small number of prisoners from Montana State Prison whose mental illness began after they were incarcerated.)

There are several issues the legislature may wish to consider:

?? The total number and mix of patients at MSH compared to the mix of types of beds for the most recently completed month and the Executive Budget request;

?? The additional costs that may be incurred if MSH population does not decline to 165 during the 2003 biennium;

?? The adequacy of DPHHS plans to reduce the MSH population if the population exceeds the budget request; and

?? The level of Medicaid and Medicare reimbursements.

Legislative staff has requested that DPHHS provide information for legislative review of these issues

Results of Cost Containment Measures

DPHHS also expected to offset $1.6 million in general fund cost increases during fiscal 2001 by reducing the payment rate for partial hospitalization services, eliminating reimbursement for partial hospitalization services provided in a setting outside of a hospital, and enhancing utilization review activities. Legislative staff has asked DPHHS to summarize and review the estimated level of cost savings achieved from these activities during appropriation subcommittee hearings. As with federal CHIP funds, the legislature should be able to determine whether sufficient savings are being generated to realize the original estimate and if not, what actions DPHHS may undertake or what policies the legislature may establish with respect to potential increases in general fund costs for fiscal 2001 and the 2003 biennium.

LFD ISSUE

If the cost containment measures have not produced the level of anticipated savings, the cost to continue MHSP services at current levels will be higher than anticipated in the Executive Budget and in fiscal 2001. The legislature may wish to consider whether to appropriate additional funds or provide direction to DPHHS to reduce expenditures.

DP 2 - FY00-FY01 PRI - PASARR - The executive requests $1,144, including $286 general fund, over the biennium for the 1 percent rate increase granted for fiscal 2001 for the Preadmission Screening and Annual Resident Review (PASARR) program providers. PASARR screenings are utilized to determine if nursing facility applicants or residents have diagnoses or indications of mental illness. The program has a federal match of 75 percent.

DP 4 - FY00-FY01 PRI - Medicaid - The executive requests $1.2 million total funds, including $0.3 million general fund, over the biennium to annualize the fiscal 2001 provider rate increase authorized by the 1999 legislature for Medicaid services.

DP 5 - FY00-FY01 PRI - MHSP - The Executive Budget includes $255,332 general fund over the biennium for the 1 percent provider rate increase granted for fiscal 2001 for MHSP providers.

DP 26 - Mental Health Block Grant Increase - The executive requests $313,722 federal funds over the biennium for an increase in the federal Community Mental Health Block Grant. Fiscal 2000 expenditures were $871,537 and the new grant award is $1,028,398. The Mental Health Block Grant is used for community mental health services for children and youth with serious emotional disturbance or severe and disabling mental illness.

This federal grant provides a portion of funding for community mental health services for children. The grant funds are intended to help the state develop an effective system of mental health care for children and adolescents and are spent in accordance with a state plan approved by the Center for Mental Health Services.

LFD ISSUE

The state must sustain a maintenance of effort to continue to receive the mental health block grant. The amount is based on the average of the two most recent years of state expenditures. State match for Medicaid services can be counted in the maintenance of effort. Legislative staff has asked DPHHS to provide the calculation of the most recent maintenance of effort to compare the maintenance of effort requirement to the 2003 biennium budget request and whether state match for CHIP expenditures can be counted in the maintenance of effort calculation.

As of December 1, 2000, there was insufficient information to determine whether the state funds included in the Executive Budget request are adequate or in excess of the amount required to continue receiving the block grant. The legislature may wish to consider the effect on the maintenance of effort in establishing the 2003 biennium appropriation for mental health services.

DP 38 - Frontier Rate Annualization - The executive requests $1.1 million, including $0.4 million general fund and $0.2 million state special revenue, over the biennium to continue a rural rate increase to mental health centers to ensure access to services in Montana's rural areas. Effective January 1, 2000, DPHHS increased rates of reimbursement for certain community-based mental health services delivered in counties classified by the U.S. Bureau of the Census as "frontier" counties (counties with a population density of fewer than six persons per square mile). The frontier premium ranges between 20 percent and 25 percent, depending on the service. The expenditures are not included in the fiscal 2000 base budget as the payment to providers will not be calculated until after the end of the fiscal year.

LFD COMMENT

Legislative staff has asked DPHHS to provide documentation about the amount that it anticipates paying for the frontier rate increase in fiscal 2000 and whether such amounts are included in its estimate of the 2001 biennium supplemental appropriation request. As of November 2000, DPHHS had not made any payments for frontier rate increases for fiscal 2000 or fiscal 2001.

LFD ISSUE

As noted in the overview, AMDD is proposing to implement an intergovernmental transfer program to raise rates paid for services provided in frontier counties. This request is funded with $200,000 over the biennium from state special revenue from those agreements.

LFD staff requested information from AMDD about the potential level of county funding available to participate in the program. Depending on the level of county funds that could be contributed, it is possible that some additional general fund increase for this proposal could be offset with county funds.

DP 47 - Caseload/Utilization Increase MHSP Pharmacy - The executive requests $276,228 general fund over the biennium to fund caseload increases in the MHSP pharmacy program. This proposal reflects a 5 percent increase in fiscal 2001.

DP 50 - Caseload/Utilization Increase – MHSP Benefits - The executive requests $314,808 general fund over the biennium to annualize the projected 1.5 percent caseload increase in fiscal 2001 for the 2003 biennium. The request does not include increased caseloads in fiscal 2002 or fiscal 2003 as it anticipated that DPHHS will continue the MHSP eligibility cap instituted in fiscal 2001 as part of the cost-containment measures discussed in the division over view.

LFD ISSUE

In an effort to control mental health services costs, DPHHS instituted an enrollment cap for MHSP in early September 2000, two months after fiscal 2001 started. Enrollment was initially capped at 3,400 adults and 900 children. Monthly eligibility for MHSP ranged from 4,002 to a high of 4,429 in March 2000, based on August 2000 data. DP 47 and DP 50 both request present law base adjustments due to MHSP caseload increases in fiscal 2001. Legislative staff has asked DPHHS to provide documentation about the number of persons enrolled in MHSP prior to the enrollment cap to evaluate the caseload increase since paid claims data for the first months of fiscal 2001 is insufficient to document such an increase.

However, despite what the actual annualized caseload increase in early fiscal 2001 may have been, DP 47 and DP 50 are more reflective of administration of an entitlement type program rather than a capped enrollment program. The legislature may wish to consider the effect on the number of enrollees if it does not approve this request. Based on DPHHS estimates of fiscal 2003 costs, enrollment would be reduced by 86 adults or 38 children or some combination of the two if DP 47 and DP 50 are not approved.

DP 51 - Medicaid Base Adjustment for FY00 - The executive requests a reduction of $849,051 general fund and a corresponding increase in federal funds over the biennium to adjust fiscal 2000 Medicaid base expenditures and the change in the required state matching rate. The state match was 27.84 percent in fiscal 2000 and is projected to be 27.27 percent in fiscal 2002 and 26.98 percent in fiscal 2003.

DP 52 - Caseload/Utilization Increase - Medicaid - The executive requests $14.5 million, including $3.4 million general fund, over the biennium for Medicaid caseload and growth in service utilization. Increases are about 4 percent per year.

LFD COMMENT Caseload estimates will be updated based on the latest paid claims data available during the legislative session.

DP 72 - MHSP Pharmacy Price Inflation - The executive requests $2 million general fund over the biennium for increased pharmaceutical costs in the MHSP program. The amount requested anticipates an increase in pharmacy prices of 10 percent from 2000 to 2001, 15 percent in fiscal 2002, and 13 percent in fiscal 2003. This request is net of drug rebates. Rebates are estimated to be about 10 percent of total drug costs. A significant service component of MHSP is medication to control the symptoms of mental illness and emotional disturbances. The cost of prescriptions is increasing due to increasing numbers of prescriptions being written and increased use of newer, higher cost medications.

LFD COMMENT Pharmacy inflation is included in several present law adjustments in this division and is a component of the present law adjustments for the primary care Medicaid services in the Health Policy and Services Division. The legislature may wish to establish the same rates of inflation for prescription drugs in MHSP as in the Medicaid program when it reviews updated Medicaid cost data during appropriation hearings. The cost of pharmacy inflation in private contracts for MSH and MMHNCC is estimated to be 8.5 percent annually during the 2003 biennium.

DP 74 - MMHNCC Holiday, OT, Differential Pay - The executive requests $550,187 general fund over the biennium for holidays worked, overtime, and differential shift pay for the MMHNCC staff. Although these costs are routinely incurred in state institutions, the costs are removed from the adjusted base budget. The costs are increased 3 percent between fiscal 2002 and fiscal 2003.

LFD ISSUE Base budget expenditures for these costs were $271,028. The MMHNCC base budget is funded 45.8 percent from Medicaid payments. If the legislature approves this proposal and determines that MMHNCC will generate Medicaid revenue in the same proportion as fiscal 2000, it could be funded in the same proportion as base expenditures and offset general fund costs by $258,085 over the biennium.

DP 76 - MSH Holiday, OT, Differential Pay - The executive requests $1.5 million general fund over the biennium for holidays worked, overtime, and differential pay at MSH. These personnel costs are removed from actual expenditures when base budgets are created for legislative appropriation consideration. The costs are increased 3 percent between fiscal 2002 and fiscal 2003.

LFD COMMENT Base budget expenditures for these costs were $733,374. The MSH base budget is funded 3.6 percent from Medicaid payments. If the legislature determines that MSH could generate Medicaid revenue equal to or greater than included in the base budget, the legislature could offset $54,146 general fund over the biennium. However, the level of Medicaid revenue that can be budgeted at MSH will depend on potential reimbursement changes due to hospital licensure of MSH. Please see discussion in division overview.

DP 82 - Family & Consumer Services Training - The executive requests $150,000, including $93,750 general fund, over the biennium to support a continuing program of education and training of mental health consumers, their families, and of mental health providers. AMDD has committed, upon the recommendation of the Mental Health Oversight Advisory Council (MHOAC), to support this program. Consumer education has been directed at making consumers active participants in decisions about their treatment and recovery and at making them effective partners to assist peers in understanding the nature of their illness and their ability to recover.

DP 86 - Fund MHSP Pharmacy Rebates - The executive requests $807,566 state special revenue for the biennium to reflect a change in accounting for pharmacy rebates. The Office of the Legislative Auditor noted an exception in the DPHHS fiscal 1999 audit related to the then existing accounting technique of abating drug rebate receipts against pharmacy expenditures. The audit recommendation requires the department to account for rebates as revenue and not offset rebates against expenditures starting in fiscal 2002. Projected rebates are estimated at 10 percent of drug costs. Not all drug manufacturers participate in the MHSP pharmacy rebate program. This issue is also included in the budget recommendations for program 07, the Health Policy and Services Division.

LFD ISSUE

The issue related to the appropriation for drug rebates in AMDD is the same as the issue raised in the Health Policy Services Division: the use of state special revenue may not comply with legislative policies established in statute.

State Special Revenue or General Fund

The drug rebate appropriation is made from state special revenue and federal funds. Use of a state special revenue appropriation in this instance may not comply with legislative policies governing the use of state special revenue accounts as established in statute (Section 17-1-505(3), MCA). Two of those guidelines that are appropriate to this proposal include: 1) the program or activity provides direct benefits to those who pay the dedicated tax, fee, or assessment, and the tax, fee, or assessment is commensurate with the cost of the program or activity; and 2) the dedicated revenue does not impair the legislature's ability to scrutinize budget, control expenditures, and establish priorities for state spending. The use of a state special revenue account does not appear to meet these legislative policy guidelines for this proposal.

Drug rebate revenue does not provide a direct benefit to those who pay the fee or tax and it is not commensurate with the cost of the program. Rebates range from 19 to 22 percent of the total cost of drugs. Depending on how closely the legislature reviews and establishes drug rebate revenue, the state special revenue designation could impair its ability to establish and control expenditures.

If the legislature believes that it is inappropriate to budget the state Medicaid match for rebates from state special revenue, it could budget the state match from the general fund. There would be no impact to the general fund balance, assuming drug rebate expenditure estimates were accurate or nearly so, because rebate revenues would be deposited to the general fund and offset the general fund appropriation.

Use of State Special Revenue

If the legislature approves use of state special revenue for the state match drug rebates, it could consider establishing conditions that would prevent expansion of the Medicaid program if rebate revenues were higher than budgeted. If rebate income exceeds the state special revenue appropriation, DPHHS would be able to transfer state special revenue authority from other programs to augment the appropriation. The legislature could consider allowing DPHHS to increase the state special revenue match by reducing general fund Medicaid matching funds an equivalent amount. This condition could be placed appropriately in HB 2.

Legislative staff requested that DPHHS provide the amount of pharmacy rebates billed and the amount paid for MHSP during budget hearings. This information will help the legislaure evaluate overall pharmacy costs.

<u>DP 199 - MHSP Eligibility Staffing -</u> The executive requests 6.0 FTE and $407,882, including $305,912 general fund, for eligibility determination for MHSP. DPHHS assumed responsibility for MHSP in fiscal 1999. This request is for funding and personnel services resources for the division to determine program eligibility for more than 5,000 participants in MHSP. The financial eligibility determination was assigned to the Human and Community Services Division in DPHHS and is addressed in the budget for that program.

LFD ISSUE

Operating costs associated with eligibility determination are included in the base budget expenditures for the Human and Community Services Division. The cost of the FTE would not be included in the base budget. If the legislature approves this request, it could reduce operating costs by $11,000 annually. General fund supports about two-thirds of the cost.

DP 988 - Annualization of Utilization Review - The Executive Budget includes $2.2 million, including $0.5 million general fund, to annualize the cost of an expansion of the Medicaid and MHSP utilization review and management contract in fiscal 2001. A new contractor was awarded the contract effective October 2000. The new contract expands the services required by the contract. The utilization review contractor is responsible for assisting the department in managing the high-end, more costly benefit services in the mental health Medicaid program and the MHSP.

DP 989 - SABHRS - Medicaid Base Adjustment - The executive reduces federal funds $4 million over the biennium to correct for differences between fiscal 2000 Medicaid expenditures as recorded on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) and actual Medicaid payments.

LFD ISSUE

As noted in the Senior and Long-Term Care Division budget request for a similar issue, the legislature may wish to combine the accounting error change in a present law adjustment for Medicaid services. Entitlement programs such as Medicaid are not driven by changes from base budget expenditures so much as from estimates of caseload, service utilization, inflation, and state matching rate changes. It may be more understandable to fund a Medicaid present law adjustment correctly than to approve several piecemeal changes.

DP 993 - MMHNCC Medicaid Patient Pharmacy - The Executive Budget requests $730,000 state special revenue over the biennium to change the process of billing for prescription drugs for the Medicaid residents at MMHNCC. The MMHNCC serves Medicaid and non-Medicaid residents. The cost of prescriptions for the non-Medicaid residents is in the MMHNCC base budget, while the cost of prescriptions for Medicaid residents is not in the base budget as the previous pharmacy contractor billed the Medicaid program directly. This request asks for the authority to create a state special revenue fund to deposit the collections of Medicaid pharmacy claims for residents. The MMHNCC would use these collected funds to pay drug costs for Medicaid residents.

LFD ISSUE

As noted previously, statute requires federal Medicaid revenues that support institution costs be deposited in a federal special revenue account.

Legislative staff requested that DPHHS provide documentation about how much the contractor billed Medicaid for prescription services during fiscal 2000 base year for MMHNCC residents in order to compare base expenditures to the 2003 biennium request.

DP 998 - MMHNCC Pharmacy Cost Inflation - The executive requests $103,964 general fund over the biennium for increased MMHNCC pharmacy costs. The pharmacy management contract requires a 25 percent increase in the management fee associated with the contract in fiscal 2001 and 4.5 percent each year thereafter. The contract changes also require an increase of 8.5 percent in prescription drug costs beginning in fiscal 2001.

DP 999 - MSH Pharmacy Cost Inflation - The executive requests $427,630 general fund over the biennium for increased pharmacy costs at MSH. The pharmacy management contract requires a 25 percent increase in the management fee associated with the contract in fiscal 2001 and 4.5 percent each year thereafter. The contract changes also require an increase of 8.5 percent in prescription drug costs beginning in fiscal 2001.

LFD ISSUE

The legislature may wish to coordinate pharmacy inflation rates across all programs. The rate of inflation requested in the present law adjustment for MHSP ranges from 10 to 15 percent for the same time span contract increases of 8.5 percent referenced in DP 998 and DP 999. If the legislature chooses to accept one standard inflation rate, the contract rate of 8.5 percent annually is the lowest rate requested in adjustments related to pharmacy costs in this division.

New Proposals		Fiscal 2002					Fiscal 2003			
Sub Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 130 - Provider Rate Increases 02-03 - Medicaid										
01	0.00	183,843	70,742	684,149	938,734	0.00	459,109	308,300	2,076,954	2,844,363
DP 131 - Psychiatrist Access Rate Increase										
01	0.00	88,285	0	143,546	231,831	0.00	102,309	0	167,189	269,498
DP 136 - Provider Rate Increase - PASARR										
01	0.00	217	0	650	867	0.00	656	0	1,969	2,625
DP 137 - Provider Rate Increase - MHSP										
01	0.00	193,414	0	0	193,414	0.00	586,043	0	0	586,043
DP 174 - Behavioral Health Facilities Start-Up										
01	0.00	350,000	0	0	350,000	0.00	0	0	0	0
DP 193 - Law Enforcement & Criminal Justice										
01	1.00	42,219	0	25,332	67,551	1.00	42,324	0	25,395	67,719
DP 987 - Expansion of CHIP Eligibility to 175% FPL										
01	0.00	0	0	0	0	0.00	0	0	1,000,000	1,000,000
Total	**1.00**	**$857,978**	**$70,742**	**$853,677**	**$1,782,397**	**1.00**	**$1,190,441**	**$308,300**	**$3,271,507**	**$4,770,248**

New Proposals

The mental health services function includes $6.5 million in new proposals, including $2.0 million general fund. The majority of the new proposals are related to provider rate increases of $4.3 million and to a CHIP financial eligibility increase of $1 million.

DP 130 - Provider Rate Increases 02-03 - Medicaid - The Executive Budget includes $3.8 million over the biennium, including $0.6 million general fund and $0.4 million in interest income from the new constitutional trust fund for tobacco settlement proceeds for a 1.5 percent provider rate increase in fiscal 2002 and 3.0 percent increase in fiscal 2003 for Medicaid mental health service providers. DPHHS notes that the current consumer price index estimates an inflation rate for health care costs between 3.5 and 4.0 percent annually and that behavioral health service providers sometimes limit the number of publicly funded consumers they will see.

DP 131 - Psychiatrist Access Rate Increase - The executive requests $501,329, including $190,594 general fund, over the biennium to continue a 25 percent provider rate increase granted to psychiatrists in fiscal 2001 for services provided to Medicaid and MHSP recipients. The rate increase was granted to enhance access to psychiatrists to ensure timely provision of psychiatric evaluations and appropriate medications. Lack of appropriate psychotropic medication, or the lack of timely assessment of the effectiveness and side effects of prescribed medications can result in hospitalization or other treatment that is unnecessary. DPHHS believes that increased reimbursement would allow mental health centers to employ additional psychiatrists, where the majority of Medicaid and MHSP beneficiaries obtain psychiatric services.

LFD ISSUE

This rate increase was not considered or funded by the 1999 legislature. If legislature chooses to not fund the MHSP portion of the rate increase, DPHHS would need to reduce MHSP by 12 adult slots or 5 children's slots or a combination in fiscal 2003. However, the number of children's slots that could be reduced would depend on the number of CHIP eligible children who are also eligible for MHSP. DPHHS could not reduce children's slots below the number of children eligible for CHIP.

DP 136 - Provider Rate Increase - PASARR - The executive requests $3,492, including $873 general fund, over the biennium for rate increases of 1.5 percent and 3.0 percent in fiscal 2002 and fiscal 2003, respectively for the PASARR (Pre-Admission Screening and Annual Resident Review) service providers.

DP 137 - Provider Rate Increase - MHSP - The Executive Budget includes $779,457 general fund over the biennium for an MHSP provider rate increase 1.5 percent in fiscal 2002 and 3.0 percent in fiscal 2003. This increase is the same rate as proposed for Medicaid mental health services.

LFD ISSUE

If the legislature does not approve an appropriation for a rate increase, but allows DPHHS to implement a rate increase, the number of MHSP slots would potentially be reduced. The number of slots would be reduced by 171 adult slots or 76 children's slots or some combination of both, based on the department estimate of average cost per slot in fiscal 2003. However, the number of children's slots that could be reduced would depend on the number of CHIP eligible children eligible for MHSP. DPHHS could not reduce children's slots below the number of children eligible for CHIP.

<u>DP 174 - Behavioral Health Facilities Start-Up -</u> The Executive Budget includes $350,000 general fund in fiscal 2002 to fund requests for proposals for start-up and initial operation of Behavioral Health Facilities (BHF) in two Montana communities. The department would attempt to locate the two facilities in a way that would logically and efficiently serve the maximum population of the state. A BHF would provide a multi-purpose, short-term residential setting for:

- Stabilization for adults in psychiatric crisis;
- Non-hospital detoxification for adults inebriated or under the influence of controlled substances who present as suicidal or with psychotic symptoms;
- Short-term evaluation, residential stabilization and treatment of adults with a serious mental illness who would otherwise be treated at MSH;
- Pre-commitment detention and assessment of adults awaiting a commitment hearing;
- Comprehensive assessment and coordinated placement of the patient in the most appropriate treatment setting; and
- Diversion from jail for individuals with a behavioral health disorder who are arrested for minor offenses.

A BHF would have a capacity of no more than 15 beds and be staffed continuously so as to provide necessary assessment, stabilization, and monitoring and for the safety needs of the individuals in residence. A BHF would be licensed by DPHHS under a new category. It would meet standards necessary to qualify for reimbursement through the Montana Medicaid program and MHSP when appropriate. The division would also contract with these facilities through the Chemical Dependency Program.

The Mental Health Oversight Advisory Council, authorized by SB 534 in the 1999 legislative session, endorsed the request for BHFs. The Council has identified development of improved services for people with co-occurring disorders as one of its highest priorities for the 2001 legislative session.

LFD ISSUE

There are three issues related to BHFs that the legislature may wish to consider: 1) the desirability of obtaining a waiver of federal Medicaid regulations in order to reimburse some of the start-up costs for BHFs with federal Medicaid funding and plan for ongoing costs and staff resources necessary to implement and manage a waiver; 2) ongoing costs and funding for BHF services; and 3) use of alcohol tax funds to offset general fund start-up costs.

Waiver of Federal Medicaid Criteria

Once a state opts to participate in the Medicaid program it must abide by certain federal rules and regulations governing the program. Two of the basic federal requirements in Title XIX of the federal Social Security Act, which established Medicaid, include: 1) services must be available statewide (Section 1902(a)(1) of the Act); and 2) consumers must have freedom of choice among providers (Section 1902(a)(23) of the Act). A state must obtain a waiver of either or both of these criteria if it limits statewide availability of services or provider participation in the Medicaid program.

Generally, the Medicaid program operates in the following manner. There are certain services that a state must include in a Medicaid program, such as hospital and physician services. There are other services that a state may chose to add - optional services as mental health and chemical dependency. Optional services, such as some outpatient procedures or settings, may be less costly than the same service available through inpatient hospitalization. Since all services must be medically necessary to be eligible for Medicaid reimbursement, optional services are sometimes a less expensive alternative to inpatient care.

LFD ISSUE CONTINUED

States have flexibility to establish provider fee schedules and provider participation criteria, which can include licensure and certification requirements. Fee schedules must be sufficient to attract and retain Medicaid providers. A test that has been used by courts to determine adequacy of provider availability in a state Medicaid program is whether Medicaid participants have the same proportional access to care as other residents of the state. Provider participation criteria must be reasonable, although there is little written federal guidance on how "reasonable" is measured or determined. Any willing provider meeting state established qualifications and willing to accept established Medicaid fees must be allowed to participate in the state Medicaid program.

If a state wishes to limit provider participation, the statewide availability of services, or freedom of consumer choice, it must obtain a waiver of federal Medicaid requirements and competitively procure contractors. If a state wishes to competitively procure services and limit provider participation to those providers selected through the procurement process, it must also obtain a waiver.

Federal Health Care Financing Administration (HCFA) officials estimate that at least 1.0 FTE would be needed to implement and administer a new waiver program that served a small number of people. 2.0 FTE would be needed to implement and administer a new waiver program that served 50 to100 people.

DPHHS does not anticipate requesting a waiver to implement BHFs. It appears that as long as start-up funds are fully funded from the general fund, the proposal does not violate federal Medicaid criteria. However, if DPHHS were to obtain a waiver for these services it could fund some of the start-up costs with federal matching funds.

If the legislature wishes to ensure that the number of BHFs is limited to two providers, it may wish to direct DPHHS to secure a waiver of statewideness and consumer freedom of choice among providers. Under a waiver, the legislature would be able to budget for BHF services with a higher degree of certainty, than under the executive proposal. Although the executive is proposing to provide start-up funds for two providers, once it establishes provider participation criteria, any provider willing to make the investment in a BHF can become a Medicaid provider.

If DPHHS intends to obtain a waiver, it may not be possible to perform the initial preparation, review, and approval of a waiver in time to establish BHFs in fiscal 2002. If DPHHS intends to pursue a waiver, it may be more appropriate to establish the appropriation as a biennial appropriation.

Ongoing Service Costs/Funding

Legislative staff requested that DPHHS provide estimates of the annual operating costs for a BHF and the funding sources that would support such a facility for consideration during appropriation hearings on this proposal. Since there are no funds to pay for services provided by BHFs in fiscal 2003, the implication seems to be that costs will be absorbed within current spending levels. The legislature may wish to evaluate:

- The estimated annual service costs;
- Funding of service costs, including general fund costs, the availability of federal Medicaid funds, and the estimated revenue from local and private sources;
- Any potential offset due to reduced MSH costs; and
- The use of alcohol state special revenue.

The executive has defined the start-up costs for BHFs in its proposal, but not the ongoing service costs that would be funded in fiscal 2003 and the 2005 biennium to support such facilities. Depending on information provided, the legislature may wish to establish guidelines for total service expenditures for BHFs.

LFD ISSUE (Continued)

The Executive Budget seems to imply that BHFs might be operational as early as fiscal 2003 and if so, service costs would be entirely funded within present law expenditures. The legislature would need to closely review the assumptions regarding payment for expanded services. If it is assumed that BHFs will reduce the MSH population and provide savings to pay for community services, that assumption should be viewed with caution. To date, service expansions have not resulted in noticeable cost savings in higher-end services and currently MHSP does not reimburse inpatient hospital costs. To the extent that services formerly provided by hospitals are shifted to a BHF, it will not be a cost neutral proposal.

Offset General Fund Start-up Costs with Alcohol Tax Funds
Legislative staff requested information on whether alcohol funds could be used to pay part of the start-up and ongoing operational costs for these facilities, since the facilities are designed to provide both mental health and chemical dependency services. If the legislature approves this request, it could request that AMDD provide a method for allocating part of the start-up costs for these facilities to alcohol state special revenue.

Legislative staff also requested information on how BHF services will be reimbursed. If services are cost based, then workloads to administer the program are higher and costs are subject to more fluctuation.

DP 193 - Law Enforcement & Criminal Justice Training - The Executive Budget includes $135,270, including $84,543 general fund, and 1.0 FTE over the biennium to fund development of, and make available to local law enforcement personnel, training to help them to appropriately respond to emergency situations involving severe mental disturbance, chemical intoxication, and/or mental illness. The training would be designed to help them recognize persons suffering from a serious mental illness or chemical dependency problem and to obtain appropriate assistance in working with such persons in a crises situation. Officers currently receive little to no training, with the exception of 2 hours of training at the Law Enforcement Academy.

Training would be developed cooperatively with representatives of law enforcement and would be provided through contracted personnel. Training will focus on:

- Initial assessment and recognition of symptoms (including use of a standard tool to screen persons taken into custody for minor offenses);
- Consumer rights;
- Appropriate response; and
- Access to and utilization of treatment resources.

In fiscal 2002 this program would deliver 1 to 2 days of intensive training (potentially distributed over a more extended period) for participating peace officer personnel from Montana's larger communities and counties. In fiscal 2003, training would be provided via one-day workshops in each of four communities with participation by law enforcement personnel from communities throughout the region.

The FTE would serve as a community systems liaison to coordinate training for law enforcement agencies and for other community agencies, including county attorneys, public defenders, and district courts and serve as a resource and first point of contact for all levels of local government concerning chemical dependency, mental illness, behavioral health services, and the public behavioral health systems.

LFD COMMENT

The LFC, as part of its interim study of public mental health services, endorsed the recommendation of the Mental Health Oversight Advisory Council to provide training on mental illness to law enforcement personnel and other persons who deal with mental illness. The LFC endorsed this budget proposal and requested introduction of a resolution directing DPHHS and the Department of Corrections to cooperate in establishing the training and that other state agencies cooperate in ensuring appropriate individuals receive training (LC0370).

LFD ISSUE Since part of the training and coordination will support chemical dependency functions and services, the legislature could consider appropriating alcohol state special revenue to support part of the cost. Potentially up to one-half of the general fund cost could be offset with alcohol state special revenue up to a maximum of $42,150 over the biennium.

LFD ISSUE Section 3211 of the Children's Health Act of 2000 authorizes $50 million in federal grants for the development or expansion of programs to provided integrated treatment services for individuals with a serious mental illness and a co-occurring substance abuse disorder. It may be possible that development of BHFs would fall within the guidelines for such a grant. The legislature, if it approves this request, could also provide some authority for contracted services to help prepare a grant application and make the general fund appropriation contingent on federal action with respect to the grant.

DP 987 - Expansion of CHIP Eligibility to 175 Percent of the Federal Poverty Level - The executive requests $1million federal CHIP funds in fiscal 2003 as part of the DPHHS proposal to increase CHIP financial eligibility from 150 percent to 175 percent of the federal poverty level. (A companion proposal, NP 145 CHIP Eligibility Increase, in the Health Policy and Services Division contains funding to support the CHIP financial eligibility increase for services administered within that program.) The executive estimates that $238,000 in general match will be needed to serve 218 additional children due to the CHIP financial eligibility change.

Each year Montana receives a federal CHIP allotment and has up to three years to spend the allotment before it reverts to the federal government. The matching funds for this authority will come from the existing general fund within the Mental Health Services Plan, which currently serves children eligible for CHIP with 100 percent general fund, and refinances those expenditures with 80 percent federal CHIP funds.

LFD COMMENT The general fund match to support the expansion of financial eligibility could potentially require DPHHS to reduce the number of adult or non-CHIP eligible children slots by up to 70 adults or 30 children or some combination of the two.

LFD ISSUE The LFC requested that the appropriation subcommittee establish MHSP financial eligibility for children's services at the same level as CHIP services. Since MHSP has been included as a component of CHIP, expanded mental health services must be provided to CHIP eligible children. However, DPHHS can establish financial eligibility for children not eligible for CHIP at a lower level. It is not clear whether this proposal also increases financial eligibility to 175 percent of the federal poverty level for children who are not eligible for CHIP. Legislative staff asked for clarification and the documentation supporting the cost estimate for this proposal.

Sub-Program Details

Addiction Treatment & Prevention 02

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	49.35	5.00	1.00	55.35	5.00	1.00	55.35	55.35
Personal Services	1,679,357	450,183	47,051	2,176,591	462,907	47,219	2,189,483	4,366,074
Operating Expenses	1,371,325	266,871	4,000	1,642,196	298,560	4,000	1,673,885	3,316,081
Equipment	10,662	0	0	10,662	0	0	10,662	21,324
Grants	4,241,451	4,116,753	(904,934)	7,453,270	4,114,897	(1,234,894)	7,121,454	14,574,724
Benefits & Claims	0	1,626	3,320,886	3,322,512	1,626	4,501,257	4,502,883	7,825,395
Debt Service	11,751	0	400	12,151	0	400	12,151	24,302
Total Costs	**$7,314,546**	**$4,835,433**	**$2,467,403**	**$14,617,382**	**$4,877,990**	**$3,317,982**	**$15,510,518**	**$30,127,900**
General Fund	206,257	9,233	(2,514)	212,976	9,386	(15,004)	200,639	413,615
State/Other Special	2,452,893	302,858	25,725	2,781,476	345,262	25,809	2,823,964	5,605,440
Federal Special	4,655,396	4,523,342	2,444,192	11,622,930	4,523,342	3,307,177	12,485,915	24,108,845
Total Funds	**$7,314,546**	**$4,835,433**	**$2,467,403**	**$14,617,382**	**$4,877,990**	**$3,317,982**	**$15,510,518**	**$30,127,900**

Addiction treatment and prevention services include the Montana Chemical Dependency Center, community services, and funding for state approved chemical dependency programs. The most significant budget proposal is expansion of Medicaid funding for community, outpatient and residential chemical dependency services. The division began implementing the expansion in fiscal 2001 and is requesting only the federal Medicaid matching funds in its budget request. The state match comes from existing expenditures.

The major state funding source for this function is the earmarked alcohol tax. A table showing alcohol tax revenues, expenditures, and fund balance is shown in the division overview. Allocation of tax proceeds and disbursements is also discussed.

Present Law Adjustments

	Fiscal 2002					Fiscal 2003				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					264,657					275,021
Vacancy Savings					(53,117)					(53,428)
Inflation/Deflation					(545)					(403)
Fixed Costs					0					0
Total Statewide Present Law Adjustments					**$210,995**					**$221,190**
DP 3 - FY00-FY01 PRI - Indigent Youth Alcohol Treatment	0.00	1,626	0	0	1,626	0.00	1,626	0	0	1,626
DP 27 - MCDC Food and Rent Inflation 00-01	0.00	0	26,778	0	26,778	0.00	0	26,778	0	26,778
DP 28 - MCDC Holiday, OT, Differential Pay	0.00	0	48,636	0	48,636	0.00	0	50,095	0	50,095
DP 29 - MCDC Food and Rent Inflation FY02 & FY03	0.00	0	27,755	0	27,755	0.00	0	56,523	0	56,523
DP 992 - Discontinue OJJDP Combating Underage Drinking	0.00	0	0	(126,946)	(126,946)	0.00	0	0	(126,946)	(126,946)
DP 994 - Substance Abuse Prevention & Treatment Block Grant	0.00	0	0	974,270	974,270	0.00	0	0	972,414	972,414
DP 995 - Continue Community Incentive Grant	5.00	0	0	3,649,490	3,649,490	5.00	0	0	3,650,702	3,650,702
DP 997 - MCDC Pharmacy Cost Inflation	0.00	0	22,829	0	22,829	0.00	0	25,608	0	25,608
Total Other Present Law Adjustments	**5.00**	**$1,626**	**$125,998**	**$4,496,814**	**$4,624,438**	**5.00**	**$1,626**	**$159,004**	**$4,496,170**	**$4,656,800**
Grand Total All Present Law Adjustments					**$4,835,433**					**$4,877,990**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.

<u>DP 3 - FY00-FY01 PRI -</u> Indigent Youth Alcohol Treatment - The executive requests $3,252 general fund over the biennium to annualize a 1 percent rate increase granted for fiscal 2001 for the Indigent Youth Alcohol Treatment Program. This program provides inpatient chemical dependency services to low-income adolescents. The department is planning to use these funds to match federal Medicaid funds in the second quarter of fiscal 2001 and plans to continue to use these funds as Medicaid match in the 2003 biennium.

LFD ISSUE

Base budget expenditures from the general fund appropriation for indigent youth alcohol treatment were $162,610. Funds were sufficient to provide services for 35 children in fiscal 2000. DPHHS is proposing to use the general fund for match for Medicaid chemical dependency services. This change would reduce services available to low-income children who are not eligible for Medicaid since the general fund supported treatment services for children with incomes up to 200 percent of the federal poverty level. Montana Medicaid eligibility for children is established at 133 percent of the federal poverty level. See the LFD comments and issues about DP 117, "Refinance Chemical Dependency Program" in the new proposal section. If the legislature approves the chemical dependency Medicaid expansion, it could offset the general fund transfer from the indigent youth alcohol treatment grant with state special alcohol tax.

<u>DP 27 - MCDC Food and Rent Inflation 00-01 -</u> The executive requests $53,556 alcohol state special revenue funding over the biennium for contract cost increases in rent and meals for the Montana Chemical Dependency that occur in fiscal 2001. The center has occupied its present treatment facility since 1993. The building is rented and the meals are contracted from an adjoining retirement home. Contractual inflation is 3 percent for rent and 4 percent for meals per year.

DP 28 - MCDC Holiday, OT, Differential Pay - The executive requests $98,731 alcohol state special revenue funding over the biennium to fund the Montana Chemical Dependency Center holidays worked, overtime, and shift differential pay. The Center is staffed 24 hours per day every day of the year. Although these costs were incurred in base expenditures, they are removed from the base budget as a standard practice. The costs are increased 3 percent between fiscal 2002 and fiscal 2003. Base budget expenditures were $27,486.

DP 29 - MCDC Food and Rent Inflation FY02 & FY03 - The executive requests $84,278 alcohol state special revenue funding over the biennium to fund the Montana Chemical Dependency Center contracted food and rent inflation increases for the 2003 biennium. MCDC will continue to rent the building it currently occupies and the meals will be contracted from the adjoining retirement home. Contractual inflation is 3 percent for rent and 4 percent for meals per year.

LFD COMMENT Although rent increases are an issue raised in the agency overview, this program request is below the annual rent increase authorized for state-owned buildings.

DP 992 - Discontinue OJJDP Combating Underage - The Executive Budget reduces federal funds by $253,892 over the biennium as The Office of Juvenile Justice and Delinquency Planning Combating Underage Drinking Grant is discontinued in the 2003 biennium.

DP 994 - Substance Abuse Prevention & Treatment - The executive requests $1.9 million federal funds over the biennium for an increase in the Substance Abuse Prevention and Treatment (SAPT) block grant. The SAPT block grant supports community services for individuals needing alcohol and drug services. The block grant was increased to $5.6 million effective fiscal 1999. This proposal requests the difference between SAPT block grant expenditures in fiscal 2000 and the new grant amount.

DP 995 - Continue Community Incentive Grant - The executive requests $7.3 million federal funds and 5.0 FTE over the biennium to continue the State Incentive Grant program funded in the 2001 biennium. DPHHS received a $9 million grant from the Substance Abuse and Mental Health Services Administration. The purpose of the grant is to provide funding and training to assist communities with alcohol prevention planning and programming.

LFD COMMENT The legislature may wish to consider whether to designate this appropriation as a one-time-only appropriation if it approves the executive request. The grant may not be continued.

DP 997 - MCDC Pharmacy Cost Inflation - The Executive Budget includes $48,437 over the biennium for increased pharmacy costs at Montana Chemical Dependency Center. The pharmacy management contract requires a 25 percent increase in the management fee associated with the contract in fiscal 2001 and 4.5 percent each year thereafter. The contract changes also include an increase of 8.5 percent in prescription drug costs beginning in fiscal 2001.

LFD ISSUE The legislature may wish to coordinate pharmacy inflation rates across all programs. The rate of inflation requested in the present law adjustment for MHSP ranges from 10 to 15 percent for the same time span that private contracts for pharmacy services increase 8.5 percent (see DP 998 and DP 999). If the legislature chooses to accept one standard inflation rate, the contract rate of 8.5 percent annually is the lowest rate requested in adjustments related to pharmacy costs in this division.

New Proposals

	Fiscal 2002					Fiscal 2003				
Sub Prgm	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 117 - Refinance Chemical Dependency Progr										
02	1.00	(4,978)	25,725	2,444,192	2,464,939	1.00	(22,469)	25,809	3,307,177	3,310,517
DP 138 - Provider Rate Increase - Indigent Y										
02	0.00	2,464	0	0	2,464	0.00	7,465	0	0	7,465
Total	**1.00**	**($2,514)**	**$25,725**	**$2,444,192**	**$2,467,403**	**1.00**	**($15,004)**	**$25,809**	**$3,307,177**	**$3,317,982**

New Proposals

DP 117 - Refinance Chemical Dependency Program - The Executive Budget includes $5.8 million and 1.0 FTE over the biennium to refinance the public chemical dependency program by creating a Medicaid benefit for a full range of services for adolescents and adults. DPHHS began implementation of the Medicaid program expansion in fiscal 2001.

The MCDC has been funded from $2.6 million in alcohol tax monies and DPHHS distributes an additional $1.0 million of alcohol taxes to counties. Except for these alcohol tax funds, there are virtually no state funds in the alcohol and drug abuse treatment program. The other significant funding sources for chemical dependency programs are federal block grants, which total about $9.2 million annually

The Medicaid expansion is funded by redirecting up to $1 million of the federal chemical dependency block grant to support operation of the MCDC. This funding change frees up earmarked alcohol tax to be used as state match for Medicaid coverage of chemical dependency services.

DPHHS review of other state Medicaid chemical dependency service programs indicates that this amount is sufficient to provide a full range of services to Montana's Medicaid population including:

?? Outpatient counseling;
?? Intensive outpatient counseling;
?? Family therapy;
?? Case management;
?? Therapeutic foster and group home services for youth;
?? Detoxification in hospital and non-hospital settings;
?? Crisis stabilization; and
?? Inpatient treatment.

Several of the state's priority groups for chemical dependency treatment are often covered by Medicaid, including the Temporary Assistance for Needy Families program (TANF) recipients, adolescents from low-income homes, adults with co-occurring disabilities such as mental illness and developmental disabilities, and families involved with the child protective services program.

After transferring a portion of the federal block grant to support MCDC, the department would retain approximately $3.1 million in block grant funds to provide services to other low-income priority groups (e.g. persons in the criminal justice system, adolescents, and women with children) who may not qualify for Medicaid eligibility.

This proposal also includes 1.0 FTE to serve as the Medicaid program officer for the chemical dependency program. This staff person would develop administrative rules and Medicaid state plan documents, train and enroll providers, serve as provider liaison for chemical dependency services and monitor the program through the Medicaid paid claims system. No additional state funds are requested for this position.

LFD COMMENT

Table 33-07 shows how AMDD will fund the Medicaid service expansion by comparing the way appropriation authority would have been distributed historically in the Executive Budget request proposal. Under the proposal, more than one-third of the MCDC budget request is funded from the Substance Abuse, Prevention and Treatment federal block grant compared to the historic practice of fully funding the institution with alcohol tax funds. Community services would have received all of the block grant funds historically, but show a reduced allocation under the proposal. Community services contracts decline by $1.1 million of federal block grant authority. Funding for the indigent youth grant program is allocated entirely to the Medicaid expansion under the proposal.

Table 33-07
Funding Switch for Medicaid Expansion to Cover Chemical Dependency Services
Fiscal 2003 Budget Request Used as Example

	Historic Allocation				Proposed Medicaid Allocation				
Function	General Fund	Alcohol Tax	SAPT Block Grant	Total	General Fund	Alcohol Tax	SAPT Block Grant	Federal Medicaid	Total
MCDC	$ -	$2,739,785	$ -	$ 2,739,785	$ -	$ 1,667,501	$1,072,284	$ -	$ 2,739,785
Community Services Contracts	-	-	5,312,511	5,312,511	-	-	4,240,227	-	4,240,227
Indigent Youth Grants	162,610	-	-	162,610	-	-	-	-	-
Medicaid	-	-	-	-	149,232	1,098,093	-	3,307,177	4,554,502
Total	$162,610	$2,739,785	$ 5,312,511	$ 8,214,906	$149,232	$ 2,765,594	$5,312,511	$3,307,177	$ 11,534,514
Total Change of Historic Funding Allocation Versus Proposed									$ 3,319,608

There is a net overall increase of $3.3 million for chemical dependency services under the proposed Medicaid allocation, largely due to the increase in federal Medicaid matching funds. However, distribution of funds among community service providers may change. Even with an increase in overall funds, the Medicaid population may be distributed or access services in a different proportion than funding available to local providers through contracts supported by block grant funds. It would be possible for total reimbursement for some providers to be lower than under the block grant contracts, depending on the level of Medicaid eligible services they deliver.

LFD ISSUE

The division has extensively researched the cost of expanding Medicaid funding for chemical dependency services. It has proposed a plan that implements benefits gradually over three years. It also plans to require timely billing for services so that it can monitor expenditures within three months for the majority of submitted claims. The division will maintain its licensure and certification of state approved providers. All of these elements should help the division closely monitor the expansion and contain service costs.

However, recent history with Medicaid costs in the mental health program and historically in primary care Medicaid and nursing services, point out the difficulty in controlling and living within budget projections. Despite careful planning and monitoring, there is the possibility that costs of the expansion will exceed the alcohol tax revenue available to support the state matching requirements and continue other services. If the legislature approves the Medicaid expansion for chemical dependency services, it may wish to consider whether to restrict appropriations for Medicaid services and include language in HB 2 directing the division to implement Section 53-6-101(11), MCA, which says:

If available funds are not sufficient to provide medical assistance for all eligible persons, the department may set priorities to limit, reduce, or otherwise curtail the amount, scope, or duration of the medical services made available under the Montana Medicaid program.

The legislature could also consider directing which benefits the division should consider the highest or lowest priority in terms of structuring chemical dependency services.

LFD ISSUE

DPHHS is proposing to shift the general fund historically appropriated for indigent youth grant program and use it as state match for Medicaid chemical dependency services. Base budget expenditures from the general fund appropriation were $162,610.

This change could reduce services available to low-income children who are not eligible for Medicaid. Here is why:

- The indigent youth alcohol treatment program provided services for youth in families with incomes up to 200 percent of the federal poverty level; and
- Medicaid eligibility for children is limited to children in families with incomes up to 133 percent of the federal poverty level.

The executive has not indicated that it will fund treatment services for youth with family incomes between 133 and 200 percent of the federal poverty level from either the federal block grant or alcohol tax revenues.

If the legislature does not approve shifting the general fund appropriation for indigent youth grant program to Medicaid match, it could increase the alcohol state special revenue funds for the expanded Medicaid program. The legislature would need to separate the general fund appropriation for indigent youth treatment and establish conditions in HB 2 to implement the policy with regard to expenditure of the general fund appropriation.

If the legislature accepts the executive proposal to change the use of the general fund appropriation for indigent youth grant program to Medicaid match, it could eliminate the general fund and replace it with alcohol state special revenue funds.

LFD ISSUE

Diversion of alcohol funds to provide the state match for Medicaid services could limit services available to other low-income persons who do not qualify for Medicaid. Alcohol and block grants funds that support contracts with state approved programs fund services to persons with incomes up to 200 percent of the poverty level. Medicaid financial eligibility ranges between 40 percent of the federal poverty level for some adults up to 133 percent of the federal poverty level for pregnant women and most children.

Diversion of alcohol funds for Medicaid services will expand the total funding available for services because currently some Medicaid eligible persons are receiving services funded fully from state funds. If those services could be funded with federal Medicaid funds, about 73 percent of the state costs would be offset. DPHHS is using the offset, "freed up" state funds to support the expansion of Medicaid without impacting the total state funding for the program.

DPHHS estimates that 499 persons served by state approved programs in 1999 were Medicaid eligible. A limited amount of the services received by these persons were reimbursed through Medicaid services administered by the Indian Health Services and through EPSDT (Early, Periodic Screening, Diagnosis, and Treatment entitlement for children with federal Medicaid).

DPHHS estimates that the expansion will be fully implemented by the end of fiscal 2003. During fiscal 2003, DPHHS expects 703 persons to access Medicaid services and the average cost for each person to more than double from fiscal 2001 (see Table 33-08)

Table 33-08

AMDD Estimates of Medicaid Expansion to Cover Chemical Dependency Services

	Funding			Number Served			Average
Fiscal Year	SSR	Federal	Total	Youth	Adult	Total	Cost
Fiscal 2001	$152,382	$405,392	$557,774	153	-	153	$3,646
Fiscal 2002	909,988	2,445,425	3,355,413	186	436	622	5,395
Fiscal 2003	1,467,941	3,972,906	5,440,847	223	480	703	7,739

LFD ISSUE CONTINUED

The growth in average per person cost is due to three variables: 1) addition of new services; 2) the service mix; and 3) the rates paid. The Medicaid service expansion will make available a limited number of new services. It will also make more intensive, higher cost services available as an entitlement. Finally, the rates paid for services will be increased.

Since the number of persons expected to access services in fiscal 2003 exceeds the number of Medicaid eligible persons receiving state funded services and the average cost per person more than doubles, the state match required to support the Medicaid expansion may exceed the state cost of fully funding services for persons who were Medicaid eligible in 1999. When the match requirement exceeds the full state cost in fiscal 1999, there is less funding to support services for low-income persons who are not Medicaid eligible.

Legislative staff asked DPHHS to present information on the average cost of services provided to Medicaid eligible persons in 1999 in order to compare the level of state match to base expenditures. With that information, the legislature should be able to determine whether the expansion in Medicaid services will make less state funding available to other low-income persons and the potential magnitude of the change.

LFD ISSUE

Section 53-24-108(2), MCA prohibits expenditure of alcohol tax revenues for services provided by for-profit businesses. Since alcohol taxes will be used to pay the state share of Medicaid costs, private for-profit businesses would not be eligible under state law to receive Medicaid reimbursement.

This provision may conflict with federal Medicaid criteria, which requires state Medicaid plans to provide for freedom of choice among providers. It is not clear that a state can limit provider participation in Medicaid according to profit status. DPHHS has not indicated whether it will request legislation to change the statute.

LFD COMMENT

It is not possible to determine from reading the administrative rules governing approval of chemical dependency programs that there is the difference in approval of programs that are: 1) state approved and therefore eligible for funding from county alcohol tax distributions; and 2) state approved and not eligible for funding from alcohol tax distributions. Because DPHHS uses the term "state approved program" without designating between the two types of programs, interpretation of approval requirements becomes confusing. The difference in administration of the program is that such programs are not eligible to receive earmarked alcohol taxes and block grant funds. However, that distinction is not included in written rules. For instance, Rule 37.27.106 says that in order for a provider to become a state approved program (and therefore presumably eligible for participation in the Medicaid program) the provider needs to provide evidence that its requested services are included in the county plan as required by 53-24-211, MCA. However, DPHHS has given state approval to programs that do not meet this requirement.

The same administrative rules will also govern approval of programs that are eligible to participate in the Medicaid program. The legislature may wish to suggest that DPHHS provide a clarification to administrative rules, which would clearly state that inclusion in the county plan is not necessary in order to become a qualified Medicaid provider.

<u>DP 138 - Provider Rate Increase - Indigent Youth -</u> The executive requests $9,929 general fund over the biennium for a provider rate increase of 1.5 percent in fiscal 2002 and 3.0 percent fiscal 2003 for adolescent inpatient chemical dependency providers.

LFD ISSUE This proposal presents the indigent youth program as a separate component of the range of chemical dependency services, rather than as an integrated part of the Medicaid expansion. The Executive Budget does not include rate increases for other chemical dependency services, including Medicaid services. Rates paid for some chemical dependency services will be raised as part of the expansion of Medicaid services to include chemical dependency services, as discussed earlier. If the legislature approves this rate request, it should be funded about 73 percent from federal matching funds since the program is being assumed into the Medicaid services expansion.

Sub-Program Details

Division Administration 03

Sub-Program Proposed Budget Budget Item	Base Budget Fiscal 2000	PL Base Adjustment Fiscal 2002	New Proposals Fiscal 2002	Total Exec. Budget Fiscal 2002	PL Base Adjustment Fiscal 2003	New Proposals Fiscal 2003	Total Exec. Budget Fiscal 2003	Total Exec. Budget Fiscal 02-03
FTE	13.00	0.00	0.00	13.00	0.00	0.00	13.00	13.00
Personal Services	571,516	7,805	0	579,321	13,364	0	584,880	1,164,201
Operating Expenses	177,693	7,039	0	184,732	9,325	0	187,018	371,750
Equipment	19,508	0	0	19,508	0	0	19,508	39,016
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	88	0	0	88	0	0	88	176
Debt Service	19,311	0	0	19,311	0	0	19,311	38,622
Total Costs	**$788,116**	**$14,844**	**$0**	**$802,960**	**$22,689**	**$0**	**$810,805**	**$1,613,765**
General Fund	570,746	10,758	0	581,504	16,520	0	587,266	1,168,770
State/Other Special	24,562	490	0	25,052	735	0	25,297	50,349
Federal Special	192,808	3,596	0	196,404	5,434	0	198,242	394,646
Total Funds	**$788,116**	**$14,844**	**$0**	**$802,960**	**$22,689**	**$0**	**$810,805**	**$1,613,765**

Division administration is responsible for operation and management of the division. The administrative function is cost allocated across division activities and is supported from a mix of general fund, alcohol state special revenue, and federal Medicaid and block grant funds.

Present Law Adjustments	Fiscal 2002 FTE	Fiscal 2002 General	Fiscal 2002 State Special	Fiscal 2002 Federal Special	Fiscal 2002 Total Funds	Fiscal 2003 FTE	Fiscal 2003 General	Fiscal 2003 State Special	Fiscal 2003 Federal Special	Fiscal 2003 Total Funds
Personal Services					24,299					30,030
Vacancy Savings					(16,494)					(16,666)
Inflation/Deflation					1,682					3,240
Fixed Costs					5,357					6,085
Total Statewide Present Law Adjustments					**$14,844**					**$22,689**
Total Other Present Law Adjustments	**0.00**	**$0**	**$0**	**$0**	**$0**	**0.00**	**$0**	**$0**	**$0**	**$0**
Grand Total All Present Law Adjustments					**$14,844**					**$22,689**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget included in the executive present law. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items will be applied globally to all agencies. A description of each item is included in the "Agency Budget Analysis Roadmap" section that begins this volume. The other numbered adjustments in the table correspond to the narrative descriptions.