

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	81.00	0.00	6.00	87.00	0.00	6.00	87.00	87.00
Personal Services	3,258,627	886,028	256,970	4,401,625	897,046	257,260	4,412,933	8,814,558
Operating Expenses	8,525,672	281,821	1,005,061	9,812,554	291,642	1,035,774	9,853,088	19,665,642
Grants	189,278	0	0	189,278	0	0	189,278	378,556
Benefits & Claims	444,205,071	69,863,702	18,418,352	532,487,125	105,771,479	19,582,305	569,558,855	1,102,045,980
Debt Service	2,282	0	0	2,282	0	0	2,282	4,564
Total Costs	\$456,180,930	\$71,031,551	\$19,680,383	\$546,892,864	\$106,960,167	\$20,875,339	\$584,016,436	\$1,130,909,300
General Fund	99,892,880	25,569,957	948,297	126,411,134	35,342,560	947,669	136,183,109	262,594,243
State/Other Special	23,744,825	12,233,491	4,939,007	40,917,323	12,078,951	5,374,309	41,198,085	82,115,408
Federal Special	332,543,225	33,228,103	13,793,079	379,564,407	59,538,656	14,553,361	406,635,242	786,199,649
Total Funds	\$456,180,930	\$71,031,551	\$19,680,383	\$546,892,864	\$106,960,167	\$20,875,339	\$584,016,436	\$1,130,909,300

Program Description

The Health Resources Division (HRD) administers Medicaid primary care services, children's mental health services, and the Children's Health Insurance Program (CHIP). The purpose of the division is to improve and protect the health and safety of Montanans. The division reimburses private and public providers for a wide range of preventive, primary, and acute care services. Major service providers include: physicians, public health departments, clinics, hospitals, dentists, pharmacies, durable medical equipment, and mental health providers. The division develops tools, measurements, and reports necessary to allow division management to administer and control programs and expenditures in the division, and to report those results in an accurate and timely manner to others. The division strives to provide superior customer service in a respectful, fair, and timely manner.

The majority of division services are funded through Medicaid. Medicaid is a voluntary state/federal partnership that reimburses medical services for the aged, blind, disabled, children, and low-income families. The Children's Mental Health Bureau is predominately financed through Medicaid. A small federal Substance Abuse and Mental Health Services Administration (SAMHSA) grant provides regional infrastructure and very limited services for children below 150 percent of the federal poverty level.

The division administers CHIP as a separate health insurance program and contracts with Blue Cross Blue Shield to provide third party administrator services. CHIP dental and eyeglasses benefits are reimbursed directly by the department.

The division also administers Big Sky Rx, a program to help Medicare eligible persons with incomes below 200 percent of the federal poverty level pay Part D pharmacy premiums. Big Sky Rx is funded from tobacco revenue and the program was initiated in response to a citizen passed initiative (I-149) in November 2004.

Program Highlights

Health Resources Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive budget increases \$138.2 million compared to the 2007 biennium, with a net increase of \$57.8 million general fund and \$17.7 million state special revenue ◆ Compared to base budget expenditures, the 2009 biennium executive budget increases \$218.5 million total funds, including \$62.8 million general fund, due largely to:

- Medicaid service and eligibility increases - \$103.5 million, including \$27.4 million general fund
- CHIP increases for HRD administration (including 5.00 new FTE) and enrollment growth from 12,019 to 13,900 - \$17.8 million total funds, including \$5.2 million state special revenue
- Big Sky Rx funding growth of \$16.6 million in health and Medicaid initiatives account state special revenue
- Annualization of Medicaid eligibility expansions for children approved by the 2005 Legislature and provider rate increases- \$15.1 million total funds, including \$5.1 million state special revenue
- Service expansions and access initiatives - \$11.9 million total funds, including \$2.6 million general fund
- Provider rate increases - \$10.3 million total funds, including \$3.2 health and Medicaid initiatives state special revenue
- ◆ In addition to service and eligibility caseload growth and expansions, general fund rises due to
 - Reductions in the federal Medicaid match rate which increases general fund by \$13.4 million and reduces federal funds by a like amount in order to continue FY 2006 level of services
 - Payment of the clawback for assumption of some Medicaid drug costs by Medicare Part D prescription coverage - \$15.6 million
 - Some offset due to elimination of general fund support for CHIP and shifting costs from partial year funding of FY 2006 provider rate increases to health and Medicaid initiatives account funds
- ◆ Funding for personal services rises \$2.5 million, partially due to the request for 6.00 new FTE, vacancies during FY 2006, and movement to pay plan 20 and upgrades of some positions

Major LFD Issues

- ◆ Issues related to the CHIP include:
 - DPHHS administration appears to cost more than experience under a fully insured product
 - Enrollment challenges over the 2005 biennium indicate that budgeted enrollment of 13,900 annually could be difficult to achieve without changes in outreach or eligibility levels
 - Expected increases in claims costs could be overstated, allowing more children to be enrolled than 13,900 anticipated in the executive budget
 - Executive budget uses about \$3.0 million more health and Medicaid initiatives account funds than allowed by statute
- ◆ LFD estimate of 2009 biennium cost for Big Sky Rx is at least \$8.4 million state special revenue lower than the executive request
- ◆ Funding included in the executive budget does not support a 2.5 percent provider rate increase for all providers and the FY 2009 funding is not adequate to continue the first year provider rate increase
- ◆ LFD estimates of the Medicare buy-in benefit is \$1.5 million, including \$0.5 million general fund, lower than the executive budget request over the biennium
- ◆ HRD has not implemented a pharmacy discount program anticipated by the 2005 Legislature to begin in FY 2009
- ◆ The legislature would need to pass legislation to continue the hospital bed utilization fee that is included in the executive budget request but not in the executive bill draft requests
- ◆ Federal changes may require the state to “unbundled” Medicaid rates for children’s mental health services similar to the change required in the developmental disability system and the potential impacts are unknown

Program Narrative

The HRD budget is driven by changes in benefits and services costs, rising to 98.3 percent of the FY 2009 budget request from 97.4 percent of FY 2006 base expenditures. Services costs grow due to:

- Growth in Medicaid eligibility, service utilization, and provider rate increases
- Increases in the request for Big Sky Rx
- Health care cost inflation and an increase in CHIP enrollment

Funding for personal services and operating costs increase partly due to HRD assumption of CHIP administration, including 5.00 new FTE. Fully funding present level FTE costs also contributes to personal services growth since some positions were vacant part or all of FY 2006.

Present law adjustments at \$156.1 million are greater than new proposals at \$94.2 million, again largely due to Medicaid caseload costs, CHIP enrollment funding, and Big Sky Rx increases. New proposals include provider rate increases, some benefit cost increases for CHIP self administration, and implementation of a family planning waiver.

General fund increases are due almost entirely to present law changes, contributing \$62.3 million of the total change. New proposals add \$1.5 million general fund. State special revenue increases are driven by annualization of 2007 biennium provider rate increases and expanding Medicaid eligibility for children authorized by the 2005 Legislature, requests for 2009 biennium provider rate increases, and Big Sky Rx funding requests. Federal funds grow primarily due to Medicaid cost increases and, to a much lesser extent, federal CHIP grant funding.

Summary of Division Budget by Function

Figure 58 shows the main functions and services administered by HRD. The largest function is Medicaid services, which accounts for 80 percent of the FY 2009 budget request. Children's Mental Health is the next largest component at 13 percent followed by CHIP with 5.1 percent. Big Sky Rx accounts for 1.5 percent and division administration is less than 0.1 percent of the total.

Figure 58

Fiscal 2006 Base Budget Compared to 2009 Biennium Executive Budget Request - Health Resources Division

Major Function and Services	FY 2006 Base Budget				FY 2008 Executive Budget Request				FY 2009 Executive Budget Request				% of Total
	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	
Major Function													
Medicaid Services	\$82,508,747	\$17,568,050	\$272,940,824	\$373,017,621	\$104,730,162	\$23,340,678	\$306,406,659	\$434,477,499	\$112,948,794	\$23,764,387	\$330,174,802	\$466,887,983	79.9%
Children's Health Resources	218,782	3,993,350	16,423,596	20,635,728	0	6,472,522	23,041,940	29,514,462	0	6,526,420	22,991,535	29,517,955	5.1%
Children's Mental Health	17,165,351	1,252,354	43,178,805	61,596,510	21,680,686	2,332,379	50,093,779	74,106,844	23,234,007	2,135,534	53,446,853	78,816,394	13.5%
Prescription Drug Program	0	931,071	0	931,071	0	8,750,000	0	8,750,000	0	8,750,000	0	8,750,000	1.5%
Health Insurance Premium Assistance Program	0	0	0	0	286	43,773	0	44,059	308	43,796	0	44,104	0.0%
Total Division Budget*	\$99,892,880	\$23,744,825	\$332,543,225	\$456,180,930	\$126,411,134	\$40,939,352	\$379,542,378	\$546,892,864	\$136,183,109	\$41,220,137	\$406,613,190	\$584,016,436	100.0%
Percent of Total	22%	5%	73%	100%	23%	7%	69%	100%	23%	7%	70%	100%	
Compounded Annual Rate of Change					12%	31%	7%	9%	8%	1%	7%	7%	
Benefits													
<u>Medicaid Services</u>													
Hospital Services	\$37,797,005	\$861,469	\$91,676,318	\$130,334,792	\$45,231,393	\$1,553,380	\$100,932,946	\$147,717,719	\$46,855,964	\$1,554,659	\$104,001,391	\$152,412,014	26.8%
Hospital Utilization Fee	0	11,111,200	26,605,026	37,716,226	0	12,617,449	27,578,310	40,195,759	0	13,037,374	28,364,257	41,401,631	7.3%
Children's Mental Health Svcs	15,247,280	1,252,354	38,215,408	54,715,042	19,565,767	2,332,379	45,065,477	66,963,623	21,117,835	2,135,534	48,417,023	71,670,392	12.6%
Children's MH Targeted Case Mng	1,374,015	0	3,328,432	4,702,447	1,374,015	0	3,328,432	4,702,447	1,374,015	0	3,328,432	4,702,447	0.8%
Managed Care Services	12,434,750	2,539,471	37,003,780	51,978,001	15,284,990	5,133,020	47,156,479	67,574,489	16,621,117	5,134,353	49,959,700	71,715,170	12.6%
Pharmacy Services	13,919,401	0	34,067,100	47,986,501	15,614,591	46,781	34,596,372	50,257,744	17,104,267	46,930	37,671,033	54,822,230	9.6%
Acute Services	10,211,595	3,043,658	19,607,087	32,862,340	11,548,849	3,958,282	22,906,301	38,413,432	12,916,916	3,959,130	25,778,652	42,654,698	7.5%
Medicare Buy-In	5,090,838	0	12,873,129	17,963,967	6,410,894	0	14,012,469	20,423,363	7,282,329	0	15,843,518	23,125,847	4.1%
Clawback Payment for Part D	0	0	0	0	7,148,475	0	0	7,148,475	8,499,585	0	0	8,499,585	1.5%
Cervical and Breast Cancer	473,468	0	1,837,226	2,310,694	661,478	19,040	2,410,121	3,090,639	803,664	19,100	2,886,295	3,709,059	0.7%
Indian Health Services	0	0	33,881,359	33,881,359	0	0	35,424,237	35,424,237	0	0	39,841,640	39,841,640	7.0%
School Based Services	0	0	9,998,320	9,998,320	0	0	15,469,185	15,469,185	0	0	19,933,245	19,933,245	3.5%
<u>CHIP</u>	207,261	3,783,054	15,558,704	19,549,018	0	0	27,254,060	27,254,060	0	0	27,221,802	27,221,802	4.8%
<u>Big Sky Rx</u>	0	206,364	0	206,364	0	7,851,953	0	7,851,953	0	7,849,095	0	7,849,095	1.4%
Total Benefits	\$96,755,613	\$22,797,570	\$324,651,889	\$444,205,071	\$122,840,451	\$33,512,284	\$376,134,390	\$532,487,125	\$132,575,693	\$33,736,175	\$403,246,987	\$569,558,855	100.0%
Percent of Total Benefits	21.8%	5.1%	73.1%	100.0%	23.1%	6.3%	70.6%	100.0%	23.3%	5.9%	70.8%	100.0%	
Annual Rate of Change					12.7%	21.2%	7.6%	9.5%	7.9%	0.7%	7.2%	7.0%	

Medicaid hospital services, including the hospital utilization fee, are the most significant service expenditure accounting for more than a third of the total division budget. Children’s mental health services and case management services account for 13.4 percent. Managed care services, including the primary care provider program and pharmacy services account for about a fifth of the division budget. Pharmacy services are net of an estimated \$15.7 million in rebates paid by drug manufacturers.

Acute services, primarily physician services, account for about 7.5 percent of the FY 2009 budget request. The Medicare buy-in program, where the Medicaid program pays the Part B (hospital services) premiums for Medicare eligible persons, is about 4.1 percent. The clawback payment, while only comprising 1.5 percent of the FY 2009 budget, is significant because it is 100 percent general fund. Except for Big Sky Rx, which is funded from health and Medicaid initiatives account revenue, the clawback is the only function that is fully funded with state funds (general fund in this case).

Breast and cervical cancer services are under 1.0 percent of the total division budget. Persons with incomes under 200 percent of the federal poverty level and who are screened and diagnosed through the Montana breast and cervical cancer program, can qualify for Medicaid coverage of cancer treatment and other basic Medicaid services.

Indian Health Services benefits represent federal Medicaid reimbursement for services provided by Indian Health Services to Medicaid eligible persons. Schools receive federal reimbursement for Medicaid services provided by schools for eligible students.

CHIP services are just under 5.0 percent of the division budget and grow from base budget costs of \$19.5 million to \$27.2 million in the FY 2009 request. Big Sky Rx provides premium payment assistance to Medicare Part D beneficiaries with incomes under 200 percent of the poverty level. The budget for this service shows the most dramatic increase rising from \$0.2 million in benefits payments in FY 2006 to a \$7.8 million budget request.

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	\$99,892,880	21.9%	\$126,411,134	23.1%	\$136,183,109	23.3%
	01100 General Fund	99,892,880	21.9%	126,411,134	23.1%	136,183,109	23.3%
02000	Total State Special Funds	23,744,825	5.2%	40,917,323	7.5%	41,198,085	7.1%
	02053 Medicaid Nursing Home Match	60,196	0.0%	60,196	0.0%	60,196	0.0%
	02142 Medicaid Third Party Revenue	783,301	0.2%	783,301	0.1%	783,301	0.1%
	02311 6901-02 Indrct Activty Prog 11	12,252	0.0%	12,726	0.0%	12,841	0.0%
	02772 Tobacco Hlth & Medid Initiative	6,369,755	1.4%	20,848,763	3.8%	20,578,518	3.5%
	02789 6901-Chip/Mcha Tobacco Sett Fd	3,090,785	0.7%	3,722,552	0.7%	3,853,519	0.7%
	02987 Tobacco Interest	2,317,336	0.5%	2,872,336	0.5%	2,872,336	0.5%
	02989 69010-Hospital Utilization Fee	11,111,200	2.4%	12,617,449	2.3%	13,037,374	2.2%
03000	Total Federal Special Funds	332,543,225	72.9%	379,564,407	69.4%	406,635,242	69.6%
	03426 Chip Program Fed	16,423,596	3.6%	23,041,940	4.2%	22,991,535	3.9%
	03580 6901-93.778 - Med Adm 50%	6,277,161	1.4%	6,717,236	1.2%	6,721,985	1.2%
	03582 93.778 - Med Ben 100%	33,881,359	7.4%	35,424,237	6.5%	39,841,640	6.8%
	03583 93.778 - Med Ben Fmap	275,211,107	60.3%	313,558,186	57.3%	336,254,525	57.6%
	03611 6901-03 Indrct Activty Prog 11	254,750	0.1%	281,657	0.1%	284,208	0.0%
	03794 Samsa Grant	495,252	0.1%	541,151	0.1%	541,349	0.1%
Grand Total		<u>\$456,180,930</u>	<u>100.0%</u>	<u>\$546,892,864</u>	<u>100.0%</u>	<u>\$584,016,436</u>	<u>100.0%</u>

General fund is 21.9 percent of the base budget and rises each year of the 2009 biennium to 23.4 percent of the FY 2009 executive budget request. General fund is used almost exclusively for state matching funds for Medicaid. The federal match rate for Medicaid declines 2.0 percent from FY 2006 to FY 2009. Each 1.0 percent reduction in the federal match rate causes the state match to rise by \$4.1 million in FY 2006 and \$5.0 million in FY 2009 for services administered by this division.

General fund increases are due to Medicaid and CHIP caseload growth (\$22.9 million over the biennium) as well as federal Medicaid match rate changes (\$10.9 million over the biennium). Implementation of Medicare Part D prescription drug coverage January 1, 2006, shifted about 40.0 percent of Medicaid drug costs to Part D. Previously, state Medicaid programs had paid drug costs for persons eligible for both Medicare and Medicaid. Reimbursement (clawback) to the federal government for this cost shift adds \$15.6 million general fund over the biennium.

There are seven state special revenue sources in HRD, totaling \$23.7 million in the base budget and rising to \$42.2 million in the FY 2009 executive request – a 73.5 percent increase. Most of the growth - \$28.7 million over the biennium - is in the health and Medicaid initiatives account, which receives tobacco taxes and was created by citizen initiative. Funds in this account pay state Medicaid match for provider rate increases and service and eligibility expansions as well as the Big Sky Rx program and some CHIP match. The hospital utilization fee pays state Medicaid match to fund Medicaid payments to hospitals, rising from base budget funding of \$11.1 million in the base budget to \$13.0 million in the executive request for FY 2009. Tobacco settlement funds and interest from the settlement trust pay

a share of the state match for CHIP and rise \$1.5 million over the biennium. Tobacco tax and settlement funding is discussed in the DPHHS agency overview.

Federal funds support 72.3 percent of base budget expenditures, with Medicaid matching funds accounting for 69.1 percent of the total division expenditures (\$315.4 million). Federal Medicaid funding rises to \$382.8 million in FY 2009, but comprises a lower share of total expenditures with 65.5 percent in FY 2009. The change in federal match rate and growth in state special revenue funds and CHIP federal grant funds lowers federal Medicaid funding as a percent of total funds.

CHIP federal grant funding provided about 3.6 percent or \$16.4 million in the base budget, rising to \$23.0 million and 3.9 percent of total funding in FY 2009. A grant from the federal Substance Abuse and Mental Health Services Administration (SAMHSA) for the development of a children’s mental health system of care and federal indirect funds provide under \$0.5 million each, rising slightly in the 2009 biennium.

Program Reorganization

Children’s Special Health Services was transferred from HRD to the Public Health and Safety Division, which is reflected in the difference in grant costs between biennia. Children’s Special Health Services provides specialty clinics for children with metabolic disorders and other medical conditions such as cleft palate. The reorganization transferred 4.64 FTE and about \$0.7 million per year.

HRD Biennial Budget Comparison

Figure 59 shows the 2007 biennium budget compared to the 2009 biennium executive budget request. The 2009 biennium is \$138.2 million greater than the 2007 biennium. Services costs exceed the total growth at \$139.7 million, but are offset by lower grant and operating costs. The biennial change is lower than the 2009 biennium annual change compared to base budget expenditures because the FY 2007 Medicaid eligibility and service increases are accounted for in Figure 59 but not in the main budget table.

2005 Legislative Initiatives

The legislature approved funding for direct care worker wage increases for children’s mental health services and 10.00 new FTE to help identify efficiencies in the Medicaid program and provide better access to care. HB 2 included language requesting that HRD provide reports to the joint appropriations subcommittee of the 2005 session summarizing the initial direct-care wages paid by July 1, 2005, and again on July 1, 2006, and January 1, 2007. HB 2 also included language requesting that HRD provide a report explaining the results of the results of hiring the FTE by September 1, 2006.

Although the Governor vetoed some of the conditions established for appropriations, he did not veto the reporting requirements for direct care wage staff increases. The Governor vetoed only one sentence of the conditions attached to hiring the 10.00 new FTE and a district court held that he must veto the entire condition and appropriation to which it is attached. The court held that the Governor’s line item veto does not permit partial item vetoes.

HRD provided the initial report due to the appropriations subcommittee about direct care wage increases for children’s mental health providers. HRD plans to provide an update to the appropriations subcommittee with the results of an audit of providers to verify direct care worker wage increases.

Figure 59
2007 Biennium Compared to 2009 Biennium
Health Resources Division

Budget Item/Fund	2007 Biennium	2009 Biennium	Percent of Total	Difference	Percent of Change
FTE	81.00	87.00		6.00	
Personal Services	\$7,289,026	\$8,814,558	1%	\$1,525,532	1.1%
Operating	21,549,166	19,665,642	2%	(1,883,524)	-1.4%
Equipment	0	0	0%	0	0.0%
Grants	1,493,358	378,556	0%	(1,114,802)	-0.8%
Benefits/Claims	962,318,582	1,102,045,980	97%	139,727,398	101.1%
Debt Service	4,564	4,564	0%	0	0.0%
Total Costs	\$992,654,696	\$1,130,909,300	100%	\$138,254,604	100.0%
General Fund	\$204,687,661	\$262,594,243	23%	\$57,906,582	41.9%
State Special	64,465,018	82,115,408	7%	17,650,390	12.8%
Federal Funds	723,502,017	786,199,649	70%	62,697,632	45.3%
Total Funds	\$992,654,696	\$1,130,909,300	100%	\$138,254,604	100.0%

On June 28, 2006, the division requested the Quality Assurance Division (QAD) conduct an audit of provider records to determine whether the Medicaid direct care worker wage increase was properly implemented. The requested audit period was from October 1, 2005 through June 30, 2006 and the audit objectives were:

- o To establish whether the specified staff received the direct care wage increase
- o To determine whether the documentation for the application of the wage increase was adequate
- o To validate the percentage increase in the Medicaid appropriation that was actually spent on services for seriously emotionally disturbed children who qualify for Medicaid.

As of September 30, 2006, QAD had completed the review of most of the providers. Upon the receipt of a comprehensive and auditable documentation from the remaining provider, QAD will finalize and present its findings to the department, which also will be shared with the appropriations subcommittee.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,058,721					1,070,199
Vacancy Savings					(172,693)					(173,153)
Inflation/Deflation					6,122					7,029
Fixed Costs					25,699					34,613
Total Statewide Present Law Adjustments					\$917,849					\$938,688
DP 11001 - Medicaid Caseload	0.00	7,378,133	0	21,597,456	28,975,589	0.00	12,881,323	0	37,959,677	50,841,000
DP 11002 - Medicaid Caseload - Children's Mental Health	0.00	2,900,429	0	6,339,548	9,239,977	0.00	4,393,079	0	9,557,633	13,950,712
DP 11003 - Medicare Buy - In Caseload	0.00	772,004	0	1,687,392	2,459,396	0.00	1,625,476	0	3,536,404	5,161,880
DP 11004 - Medicaid Breast & Cervical Cancer	0.00	157,740	0	561,549	719,289	0.00	295,767	0	1,041,942	1,337,709
DP 11005 - FMAP MATCH Rate for FY2008/FY2009	0.00	7,070,145	0	(7,070,145)	0	0.00	7,411,883	0	(7,411,883)	0
DP 11006 - CHIP FMAP Match Rate	0.00	0	313,283	(313,283)	0	0.00	0	350,424	(350,424)	0
DP 11007 - Medicaid Tobacco Portion -I-149	0.00	(200,000)	2,951,188	6,013,349	8,764,537	0.00	(200,000)	2,951,188	5,985,517	8,736,705
DP 11008 - Big Sky Rx Base Adjustment	0.00	0	7,645,589	0	7,645,589	0.00	0	7,642,731	0	7,642,731
DP 11009 - CHIP Enrollment	0.00	(262,626)	611,166	2,788,909	3,137,449	0.00	(269,432)	523,952	2,882,929	3,137,449
DP 11010 - Indian Health Services Caseload	0.00	0	0	1,542,878	1,542,878	0.00	0	0	5,960,281	5,960,281
DP 11025 - Rural Health & Fed Qualified Health Centers	0.00	72,361	0	158,162	230,523	0.00	158,529	0	344,898	503,427
DP 11028 - Phased-down State Contribution Adjustment	0.00	7,148,475	0	0	7,148,475	0.00	8,499,585	0	0	8,499,585
DP 11031 - CMH - Direct Care Wage Biennial	0.00	0	198,404	(198,404)	0	0.00	0	0	0	0
DP 11040 - Hospital Cost Reports	0.00	125,000	0	125,000	250,000	0.00	125,000	0	125,000	250,000
Total Other Present Law Adjustments	0.00	\$25,161,661	\$11,719,630	\$33,232,411	\$70,113,702	0.00	\$34,921,210	\$11,468,295	\$59,631,974	\$106,021,479
Grand Total All Present Law Adjustments					\$71,031,551					\$106,960,167

LFD COMMENT Statewide present law adjustments add \$1.8 million total funds due almost entirely to adjustments for personal services. Changes in statewide adjustments for inflation and fixed cost are negligible (\$73,463). Figure 60 shows the components of the personal services change.

The majority of the adjustment is due to fully funding positions that were vacant during the base budget year (84.6 percent of the total biennial increase). Fully funding partial year vacancies adds about \$724,000 annually, while fully funding six positions that were vacant the entire year adds about \$176,000 annually. Partial year vacancies were due to program start up (Big Sky Rx), filling 10.00 new FTE to control Medicaid costs funded by the 2005 Legislature, and turnover in bureau chief and division administrator positions. Upgrades, including some change due to movement of seven positions to pay plan 20, adds about \$58,000 per year. The impact of pay plan changes adds about \$174,000 over the year, including \$92,000 for annualization of health insurance increases. Some of the cost of pay plan changes is included in fully funding vacant positions.

Figure 60
Health Resources Division
Personal Services Present Law Adjustment

Cost Item	FY 2008	FY 2009	Biennium	Percent of Total
Vacant Positions				
Partial Year	\$724,282	\$724,282	\$1,448,564	68.0%
Full Year (6.00 FTE)	176,209	176,209	352,418	16.6%
Health Insurance Incr.*	91,956	91,956	183,912	8.6%
Upgrades	58,370	58,370	116,740	5.5%
Other	7,904	19,382	27,286	1.3%
Total	\$1,058,721	\$1,070,199	\$2,128,920	100.0%

*Increase for 79 of the 85 FTE. The health insurance increase for the six vacant positions is included in the cost of the vacant positions.

LFD ISSUE Figure 61 shows how statewide present law adjustments are funded in the executive budget request compared to the LFD estimate of how the costs should be funded. The 2009 biennium LFD estimate is lower in general fund (\$177,868) and state special revenue (\$725,289) and higher in federal funds (\$903,157) than the executive.

Figure 61
Health Resources Division
Biennial Funding for Statewide Present Law Adjustment
LFD Estimate Compared to Executive Request
2009 Biennium Budget Request

Fund Source	Executive	LFD	LFD Over (Under) Executive
General Fund	\$835,432	\$657,564	(\$177,868)
State Special R	1,126,237	400,948	(725,289)
Federal Funds	(90,290)	812,867	903,157
Total	\$1,871,379	\$1,871,379	\$0

The LFD estimate is based on funding individual present law adjustments by subprogram. For example, statewide present law adjustments for Medicaid services was funded 50 percent general fund and 50 percent federal funds, while statewide present law adjustments for Big Sky Rx were funded fully from state special revenue.

LFD Issue

The legislature could fund statewide present law adjustments in proportion to subprogram funding levels.

New Proposals

Program	FTE	-----Fiscal 2008-----				-----Fiscal 2009-----					
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 11011 - Dental Access	11	0.00	400,000	555,000	2,087,370	3,042,370	0.00	400,000	555,000	2,077,709	3,032,709
DP 11012 - Hospital Utilization Fee (Requires Legislation)	11	0.00	0	1,506,249	973,284	2,479,533	0.00	0	1,926,174	1,759,231	3,685,405
DP 11013 - CHIP Self Administration	11	5.00	0	1,236,420	4,401,611	5,638,031	5.00	0	1,246,569	4,391,462	5,638,031
DP 11038 - Family Planning Waiver Implementation - OTO	11	1.00	348,297	0	2,743,296	3,091,593	1.00	347,669	0	2,742,669	3,090,338
DP 11501 - Provider Rate Increases	11	0.00	0	1,641,338	3,587,518	5,228,856	0.00	0	1,646,566	3,582,290	5,228,856
DP 11901 - System of Care Sustainability	11	0.00	200,000	0	0	200,000	0.00	200,000	0	0	200,000
Total	6.00	\$948,297	\$4,939,007	\$13,793,079	\$19,680,383	6.00	\$947,669	\$5,374,309	\$14,553,361	\$20,875,339	

Sub-Program Details**MEDICAID 01****Sub-Program Proposed Budget**

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	40.00	0.00	1.00	41.00	0.00	1.00	41.00	41.00
Personal Services	1,866,334	322,251	35,347	2,223,932	328,518	35,392	2,230,244	4,454,176
Operating Expenses	6,119,087	263,192	156,246	6,538,525	268,587	154,946	6,542,620	13,081,145
Benefits & Claims	365,032,200	48,591,792	12,091,050	425,715,042	79,795,658	13,287,261	458,115,119	883,830,161
Total Costs	\$373,017,621	\$49,177,235	\$12,282,643	\$434,477,499	\$80,392,763	\$13,477,599	\$466,887,983	\$901,365,482
General Fund	82,508,747	21,473,118	748,297	104,730,162	29,692,378	747,669	112,948,794	217,678,956
State/Other Special	17,568,050	2,559,634	3,212,994	23,340,678	2,559,749	3,636,588	23,764,387	47,105,065
Federal Special	272,940,824	25,144,483	8,321,352	306,406,659	48,140,636	9,093,342	330,174,802	636,581,461
Total Funds	\$373,017,621	\$49,177,235	\$12,282,643	\$434,477,499	\$80,392,763	\$13,477,599	\$466,887,983	\$901,365,482

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

The Medicaid services administered by HRD are commonly referred to as "state plan services". Once a state opts to administer Medicaid it must submit its plan for federal review and approval. The plan must include certain mandatory services and can include optional services. Examples of mandatory services are hospital and physician services, and durable medical equipment. Examples of optional services include pharmacy and some outpatient services, such as physical, speech, and occupational services. The Montana Medicaid state plan includes nearly all optional services. Once a person is eligible for Medicaid, they are eligible for any state plan service if it is medically necessary. A waiver of federal regulations is necessary to limit or reduce the services a Medicaid eligible person can receive. DPHHS has waivers that allow it to reduce the service package to a few specified populations, including able-bodied parents in low-income families.

Total Medicaid state plan costs are driven by the number of persons eligible, the number of persons accessing services, the quantity of services utilized, and the cost of services. Although Montana funds a wide array of services, its eligibility levels are at or near federal minimums and Medicaid reimbursements across provider classes are lower than comparable Medicare service rates.

State plan services are the dominant component of the division and the department budgets nearing \$1.0 billion in the 2009 biennium budget request. State plan services are a significant component of HB 2 as well, comprising about 8.0 percent of total HB 2 expenditures in FY 2006, including \$79.8 million general fund and \$17.6 million state special revenue. Present law requests to continue state plan Medicaid services (hospital, physician, drugs, therapies, durable medical equipment) add \$100.1 million over the biennium compared to base budget expenditures, including \$51.5 million general fund and \$18.7 million state special revenue.

Figure 62 shows each major service included in state plan services and each budget change requested in the executive budget. In summary, state funding increases over the 2009 biennium are driven by:

- Increases in service utilization and some growth in the number of persons eligible (\$22.9 million general fund, \$72.5 million total funds)
- Continuation of the hospital bed utilization fee (\$6.2 million state special revenue and federal funds)

- A drop in the federal match rate from 70.66 percent in FY 2006 to 68.61 percent in FY 2008 and 68.51 percent in FY 2009 (\$10.9 million general fund increase and a like reduction in federal funds)
- Payment of the state clawback due to implementation of Medicare Part D prescription drug coverage totals \$15.6 million general fund
- Funding switches from general fund to tobacco tax state special revenue, including expansions authorized by the 2005 Legislature, which raised family asset limit from \$3,000 to \$15,000 for Medicaid eligibility for children, which adds \$15.0 million total funds, including a \$0.2 million general fund reduction
- A request to raise provider reimbursement the first year of the biennium costs \$7.2 million total funds, including \$2.3 million in tobacco tax state special revenue

Figure 62
2009 Biennium Executive Budget Request - HRD Medicaid Services

Medicaid Services	FY 2008 Budget Request				FY 2009 Budget Request				Percent of Total
	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	
Hospital Services	\$37,797,005	\$861,469	\$91,676,318	\$130,334,792	\$37,797,005	\$861,469	\$91,676,318	\$130,334,792	67.2%
Hospital Bed Tax Base Expenditures	0	11,111,200	26,605,026	37,716,226	0	11,111,200	26,605,026	37,716,226	19.5%
NP 11012 Hospital Utilization Fee	0	1,506,249	973,284	2,479,533	0	1,926,174	1,759,231	3,685,405	1.9%
PL 11001 Medicaid Caseload	4,692,229	0	10,255,935	14,948,164	6,100,398	0	13,272,095	19,372,493	10.0%
PL 11005 FMAP Match Rate for 08/09	2,669,798	0	(2,669,798)	0	2,800,032	0	(2,800,032)	0	0.0%
PL 11007 Medicaid Tobacco Portion I-149	0	290,435	634,812	925,247	0	290,435	631,874	922,309	0.5%
PL 11025 Rural Health & FQHCs	72,361	0	158,162	230,523	158,529	0	344,898	503,427	0.3%
NP 11501 Provider Rate Increases	0	401,476	877,517	1,278,993	0	402,755	876,238	1,278,993	0.7%
Subtotal Hospital Services	\$45,231,393	\$14,170,829	\$128,511,256	\$187,913,478	\$46,855,964	\$14,592,033	\$132,365,648	\$193,813,645	100.0%
Pharmacy Services	\$13,919,401	\$0	\$34,067,100	\$47,986,501	\$13,919,401	\$0	\$34,067,100	\$47,986,501	87.5%
LFD Allocation of Caseload Adjustment	666,162	0	1,456,049	2,122,211	2,105,641	0	4,581,056	6,686,697	0.0%
PL 11005 FMAP Match Rate for 08/09	1,029,028	0	(1,029,028)	0	1,079,225	0	(1,079,225)	0	0.0%
NP 11501 Provider Rate Increases	0	46,781	102,251	149,032	0	46,930	102,102	149,032	0.3%
Subtotal Pharmacy Services	\$15,614,591	\$46,781	\$34,596,372	\$50,257,744	\$17,104,267	\$46,930	\$37,671,033	\$54,822,230	100.0%
Acute Services Base Expenditures	\$10,211,595	\$3,043,658	\$19,607,087	\$32,862,340	\$10,211,595	\$3,043,658	\$19,607,087	\$32,862,340	64.2%
PL 11001 Medicaid Caseload	427,863	0	935,194	1,363,057	1,768,142	0	3,846,789	5,614,931	11.0%
PL 11005 FMAP Match Rate for 08/09	509,391	0	(509,391)	0	537,179	0	(537,179)	0	0.0%
PL 11007 Medicaid Tobacco Portion I-149	0	93,597	204,578	298,175	0	93,597	203,631	297,228	0.6%
NP 11011 Dental Access	400,000	555,000	2,087,370	3,042,370	400,000	555,000	2,077,709	3,032,709	5.9%
PL 11028 Phased Down State Contribution	7,148,475	0	0	7,148,475	8,499,585	0	0	8,499,585	16.6%
NP 11501 Provider Rate Increases	0	266,027	581,463	847,490	0	266,875	580,615	847,490	1.7%
Subtotal Acute Services	\$18,697,324	\$3,958,282	\$22,906,301	\$45,561,907	\$21,416,501	\$3,959,130	\$25,778,652	\$51,154,283	100.0%
Managed Care Services Base Expenditures	\$12,344,957	\$2,539,471	\$36,786,754	\$51,671,182	\$12,344,957	\$2,539,471	\$36,786,754	\$51,671,182	72.1%
Targeted Case Management	89,793	0	217,026	306,819	89,793	0	217,026	306,819	0.0%
PL 11001 Medicaid Caseload	1,591,879	0	3,479,413	5,071,292	2,907,142	0	6,324,812	9,231,954	12.9%
PL 11005 FMAP Match Rate for 08/09	548,051	0	(548,051)	0	566,015	0	(566,015)	0	0.0%
PL 11007 Medicaid Tobacco Portion I-149	(200,000)	2,175,128	4,317,092	6,292,220	(200,000)	2,175,128	4,297,111	6,272,239	8.7%
NP 11038 Family Planning Waiver OTO	910,310	0	1,989,690	2,900,000	913,210	0	1,986,790	2,900,000	4.0%
NP 11501 Provider Rate Increases	0	418,421	914,555	1,332,976	0	419,754	913,222	1,332,976	1.9%
Subtotal Managed Care Services	\$15,284,990	\$5,133,020	\$47,156,479	\$67,574,489	\$16,621,117	\$5,134,353	\$49,959,700	\$71,715,170	100.0%
Medicare Buy-In	\$5,090,838	\$0	\$12,873,129	\$17,963,967	\$5,090,838	\$0	\$12,873,129	\$17,963,967	77.7%
DP 11003 Caseload Increase	772,004	0	1,687,392	2,459,396	1,625,476	0	3,536,404	5,161,880	22.3%
PL 11005 FMAP Match Rate for 08/09	548,051	0	(548,051)	0	566,015	0	(566,015)	0	0.0%
Subtotal Medicare Buy-In	\$6,410,893	\$0	\$14,012,470	\$20,423,363	\$7,282,329	\$0	\$15,843,518	\$23,125,847	100.0%
Breast and Cervical Cancer	\$661,478	\$19,040	\$2,410,121	\$3,090,639	\$803,664	\$19,100	\$2,886,295	\$3,709,059	100.0%
Indian Health Services	\$0	\$0	\$35,424,237	\$35,424,237	\$0	\$0	\$39,841,640	\$39,841,640	100.0%
School Based Services	\$0	\$0	\$15,469,185	\$15,469,185	\$0	\$0	\$19,933,245	\$19,933,245	100.0%
Total by Component									
Base/Some Caseload Increases	\$80,115,067	\$17,574,838	\$275,135,983	\$372,825,888	\$80,257,253	\$17,574,898	\$284,493,620	\$382,325,771	83.5%
Caseload/Service Utilization Growth	8,222,497	0	17,972,146	26,194,643	14,665,328	0	31,906,054	46,571,382	10.2%
Hospital Utilization Fee	0	1,506,249	973,284	2,479,533	0	1,926,174	1,759,231	3,685,405	0.8%
FMAP Federal Match Rate Reduction	5,304,319	0	(5,304,319)	0	5,548,466	0	(5,548,466)	0	0.0%
Phased Down Contribution - Clawback	7,148,475	0	0	7,148,475	8,499,585	0	0	8,499,585	1.9%
I-149 Funding Switch/Annualization	(200,000)	2,559,160	5,156,482	7,515,642	(200,000)	2,559,160	5,132,616	7,491,776	1.6%
Expansions/Access	1,310,310	555,000	4,077,060	5,942,370	1,313,210	555,000	4,064,499	5,932,709	1.3%
Provider Rate Increases	0	1,132,705	2,475,786	3,608,491	0	1,136,314	2,472,177	3,608,491	0.8%
Grand Total	\$101,900,668	\$23,327,952	\$300,486,421	\$425,715,042	\$110,083,842	\$23,751,546	\$324,279,731	\$458,115,119	100.0%

Hospital services are the largest share of the Medicaid services budget accounting for almost half of total 2009 biennium expenditures. Managed care services account for about 14 percent of the total, while pharmacy and acute care services are each about 10.0 percent of the total.

LFD COMMENT

In October 2005 (midway through state FY 2006), the Medicaid claims payment contractor began using an optical scanner to process the paper claims backlog, estimated to be about 50,000 claims. The backlog was cleared by December 2005. As a result, the number of claims paid in October and November of FY 2006 was greater than other months in FY 2006, which also produced higher than expected costs in those months. Since Medicaid estimates are based on historic trends, it became difficult to determine ongoing changes in the data from the one time change due to elimination of the backlog.

This aberration in the data made it difficult to estimate FY 2006 Medicaid costs at fiscal year end. It continues to cause difficulty in estimates for the 2009 biennium, since it occurred within the most recent 12 months of data used to develop the executive budget. The executive Medicaid request is based on claims paid through the end of October, 2006. LFD staff has reviewed the methodology and assumptions used by the department in developing the budget request for state plan services. The methodology and assumptions, with a few exceptions for specific caseload increases, appear to be prudent and reasonable.

Medicaid caseload estimates will continue to be updated throughout the legislative session. There are usually modifications to the estimates, but the changes this biennium could be more significant when the effect of the backlog payment recedes.

	-----Fiscal 2008-----					-----Fiscal 2009-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services					413,439					419,969	
Vacancy Savings					(91,188)					(91,451)	
Inflation/Deflation					2,765					3,589	
Fixed Costs					10,427					14,998	
Total Statewide Present Law Adjustments					\$335,443					\$347,105	
DP 11001 - Medicaid Caseload	0.00	7,378,133		0	21,597,456	28,975,589	0.00	12,881,323	0	37,959,677	50,841,000
DP 11003 - Medicare Buy - In Caseload	0.00	772,004		0	1,687,392	2,459,396	0.00	1,625,476	0	3,536,404	5,161,880
DP 11004 - Medicaid Breast & Cervical Cancer	0.00	157,740		0	561,549	719,289	0.00	295,767	0	1,041,942	1,337,709
DP 11005 - FMAP MATCH Rate for FY2008/FY2009	0.00	5,852,087		0	(5,852,087)	0	0.00	6,134,407	0	(6,134,407)	0
DP 11007 - Medicaid Tobacco Portion -I-149	0.00	(200,000)	2,559,160	5,156,482	7,515,642	7,515,642	0.00	(200,000)	2,559,160	5,132,616	7,491,776
DP 11010 - Indian Health Services Caseload	0.00	0	0	1,542,878	1,542,878	1,542,878	0.00	0	0	5,960,281	5,960,281
DP 11025 - Rural Health & Fed Qualified Health Centers	0.00	72,361		0	158,162	230,523	0.00	158,529	0	344,898	503,427
DP 11028 - Phased-down State Contribution Adjustment	0.00	7,148,475		0	0	7,148,475	0.00	8,499,585	0	0	8,499,585
DP 11040 - Hospital Cost Reports	0.00	125,000		0	125,000	250,000	0.00	125,000	0	125,000	250,000
Total Other Present Law Adjustments	0.00	\$21,305,800	\$2,559,160	\$24,976,832	\$48,841,792	\$48,841,792	0.00	\$29,520,087	\$2,559,160	\$47,966,411	\$80,045,658
Grand Total All Present Law Adjustments					\$49,177,235					\$80,392,763	

DP 11001 - Medicaid Caseload This request adds \$79.8 million (\$20.2 million in general fund) over the biennium for increased Medicaid costs for several state plan Medicaid benefits.

LFD COMMENT

The caseload increase is allocated among Medicaid services as shown in Figure 63. Base expenditures were \$272.9 million, including \$74.3 million general fund and \$6.4 million state special revenue.

This request represents an annual compounded 5.3 percent growth rate from base budget expenditures through the 2009 biennium. However, that increase does not take into account other present law adjustments, which also add to the cost of Medicaid services administered by HRD.

Figure 63
DP 11001 Caseload Request Allocated Among Benefits

Medicaid Services	FY 2008 Budget Request				FY 2009 Budget Request				Percent of Total
	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	
<u>Hospital Services Base Expenditures</u>	\$37,797,005	\$861,469	\$91,676,318	\$130,334,792	\$37,797,005	\$861,469	\$91,676,318	\$130,334,792	40.3%
DP 11001 Caseload Increase	<u>4,692,229</u>	<u>0</u>	<u>10,255,935</u>	<u>14,948,164</u>	<u>6,100,398</u>	<u>0</u>	<u>13,272,095</u>	<u>19,372,493</u>	6.0%
Subtotal Hospital Services	\$42,489,234	\$861,469	\$101,932,253	\$145,282,956	\$43,897,403	\$861,469	\$104,948,413	\$149,707,285	46.2%
<u>Managed Care Services Base Expenditures</u>	\$12,344,957	\$2,539,471	\$36,786,754	\$51,671,182	\$12,344,957	\$2,539,471	\$36,786,754	\$51,671,182	16.0%
DP 11001 Caseload Increase	<u>1,591,879</u>	<u>0</u>	<u>3,479,413</u>	<u>5,071,292</u>	<u>2,907,142</u>	<u>0</u>	<u>6,324,812</u>	<u>9,231,954</u>	2.9%
Subtotal Managed Care Services	\$13,936,836	\$2,539,471	\$40,266,167	\$56,742,474	\$15,252,099	\$2,539,471	\$43,111,566	\$60,903,136	18.8%
<u>Pharmacy Services Base Expenditures</u>	\$13,919,401	\$0	\$34,067,100	\$47,986,501	\$13,919,401	\$0	\$34,067,100	\$47,986,501	14.8%
LFD Allocation of Caseload Adjustment	<u>666,162</u>	<u>0</u>	<u>1,456,049</u>	<u>2,122,211</u>	<u>2,105,641</u>	<u>0</u>	<u>4,581,056</u>	<u>\$6,686,697</u>	2.1%
Subtotal Pharmacy Services	\$14,585,563	\$0	\$35,523,149	\$50,108,712	\$16,025,042	\$0	\$38,648,156	\$54,673,198	16.9%
<u>Acute Services Base Expenditures</u>	\$10,211,595	\$3,043,658	\$19,607,087	\$32,862,340	\$10,211,595	\$3,043,658	\$19,607,087	\$32,862,340	10.2%
DP 11001 Caseload Increase	<u>427,863</u>	<u>0</u>	<u>935,194</u>	<u>1,363,057</u>	<u>1,768,142</u>	<u>0</u>	<u>3,846,789</u>	<u>5,614,931</u>	1.7%
Subtotal Acute Services	\$10,639,458	\$3,043,658	\$20,542,281	\$34,225,397	\$11,979,737	\$3,043,658	\$23,453,876	\$38,477,271	11.9%
<u>School Based Services</u>	\$0	\$0	\$9,997,601	\$9,997,601	\$0	\$0	\$9,997,601	\$9,997,601	3.1%
DP 1101 Caseload Increase	<u>0</u>	<u>0</u>	<u>5,470,865</u>	<u>5,470,865</u>	<u>0</u>	<u>0</u>	<u>9,934,925</u>	<u>9,934,925</u>	3.1%
Subtotal School Based Services	\$0	\$0	\$15,468,466	\$15,468,466	\$0	\$0	\$19,932,526	\$19,932,526	6.2%
Total by Component									
Total Base	\$74,272,958	\$6,444,598	\$192,134,860	\$272,852,416	\$74,272,958	\$6,444,598	\$192,134,860	\$272,852,416	84.3%
Caseload/Service Utilization Growth	<u>7,378,132</u>	<u>0</u>	<u>21,597,457</u>	<u>28,975,589</u>	<u>12,881,323</u>	<u>0</u>	<u>37,959,677</u>	<u>50,841,000</u>	15.7%
Total with Caseload Adjustment	\$81,651,090	\$6,444,598	\$213,732,317	\$301,828,005	\$87,154,281	\$6,444,598	\$230,094,537	\$323,693,416	100.0%

The executive budget does not allocate a specific caseload increase to the pharmacy program, but combines it with hospital costs. LFD staff has changed the allocation in Figure 63 to show the expected growth in pharmacy costs. Pharmacy costs are net of rebates paid by drug manufacturers, which are estimated to be 21 percent of total pharmacy costs.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: This request funds Medicaid cost increases due to the number of eligible persons, service utilization and patient acuity levels. Medicaid is an entitlement program. Failure to account for changes in caseload would materially misstate present law service costs.

Goal: Continue to provide high quality services to about 83,000 Medicaid eligible Montanans who require the level of medical services provided by this program. To the extent possible, the division will aggressively manage the program and invest in program areas that promote cost avoidance to help control the growth of Medicaid entitlements so they don't consume unnecessary resources.

Performance Criteria: Eligible individuals will continue to receive appropriate care as authorized by program rules. Staff will monitor program budgets monthly to insure that program is operating within funding levels as appropriated and utilization is consistent with expected program growth rates.

Milestones: The program will monitor budget activity monthly and annually to operate program expenditures within appropriated funding levels over the course of the biennium.

FTE: No additional FTE will be required for this increase in caseload for these services.

Funding: The funding is at the Medicaid services matching rate of about 31 percent state funds and about 69 percent federal funds.

Obstacles: Shortages of providers who are willing and able to provide these services are an issue. Continuation of provider rate increases can help in assuring access to care.

Risk: If increases in funding are not approved it is expected that expenditures will exceed the budgeted authority as demand for services increases and as persons become eligible and access services. If resources are not available to meet the increased demand, modifications or reductions to the service package that can be offered would result. Cutting services is not a recommended option, since services have been limited to those which are required and necessary to maintain a viable Medicaid program.

LFD ISSUE The executive budget includes the same evaluation criteria for all significant Medicaid adjustments. Program goals are broad, general, and unrelated to many activities besides ensuring appropriations are not overspent. The performance criteria do not assess whether expenditures are providing high quality services. The information to evaluate an appropriation for \$796.6 million over the biennium seems insufficient. Some program challenges noted by Medicaid staff in public meetings include maintaining access to services, high cost of neonatal cases, ensuring that Medicaid participants have a medical home, preventing use of high cost services, and encouraging preventive health measures. However, none of these challenges is mentioned.

The legislature could request that HRD develop more meaningful performance measures and evaluation criteria. The legislature could consider including those measures and criteria in a companion bill to HB 2 and requiring periodic reports during the interim.

DP 11003 - Medicare Buy - In Caseload - This request adds \$7.6 million total funds over the biennium including \$2.4 million general fund. The funds pay expected increases in premiums for Medicare Part A and Part B as projected by the department. DPHHS pays Medicare Part A and Part B premiums for persons eligible for both Medicare and Medicaid if it would lower Medicaid costs. Medicare covers the cost of most services for the individual leaving Medicaid liable for non-Medicare covered services, and for co-insurance and deductibles related to services utilized.

LFD ISSUE LFD estimates of the cost for Medicare Part B coverage are lower than those in the executive budget by \$1.5 million total funds, including \$0.5 million general fund. Figure 64 compares the estimates.

The LFD The LFD used an annual rate of change in Part B premiums of 12.8 percent. The LFD held caseloads constant at 15,610, the average of FY 2005 and FY 2006.

These estimates will be revised during the legislative session, when updated information on caseloads is available. There will be no changes to the Part B premium. Barring significant changes in caseloads, a difference between the executive and LFD estimate most likely will remain.

Figure 64
Medicare Buy In Cost Estimates
LFD Compared to HRD Estimate

Estimate	FY 2008	FY 2009
Executive Budget	\$20,423,363	\$23,125,847
LFD		
Monthly Eligibles	15,610	15,610
Monthly Premium	<u>\$105.47</u>	<u>\$118.97</u>
	\$19,756,266	\$22,285,068
Exec. Over (Under) LFD	\$667,097	\$840,779
General Fund	\$209,402	\$264,761
Biennial Total		<u>\$474,163</u>
Figure		

DP 11004 - Medicaid Breast & Cervical Cancer - This request adds \$2.1 million for the biennium including \$0.5 million general fund to provide continued funding for the Breast and Cervical Cancer Treatment program for those individuals determined to be Medicaid eligible. Costs rise due to estimated growth in service utilization and the number of persons eligible, based on historic cost trends. The Medicaid program provides health care coverage and reimbursement to health care providers for those individuals screened through the Montana Breast and Cervical Health (MBCH) program who are

diagnosed with breast and/or cervical cancer or pre-cancer. The individual must be under 65 years of age, uninsured, and have a family gross income at or below 200 percent of the federal poverty level. Individuals eligible under this program are covered for health care services under the basic Medicaid program for the duration of treatment.

DP 11005 - FMAP MATCH Rate for FY2008/FY2009 - This decision package reflects the reduction in federal Medicaid match rate (FMAP). In total, the FMAP adjustment adds \$14.5 million in general fund and reduces federal funds by a like amount. Most of the change is for state plan services, which rises by \$12.0 million general fund with a like reduction in federal funds. This adjustment also adds \$2.5 million in general fund for children's mental health services and reduces federal funds by the same amount to account for the funding shift necessary to maintain FY 2006 funded services.

DP 11007 - Medicaid Tobacco Portion -I-149 - This decision package reduces general fund by \$0.2 million each year and increases health and Medicaid initiatives state special funds \$3.0 million each year to annualize eligibility increases and fully fund provider rate increases from the state special revenue. State special revenue and a small amount of general fund were appropriated by the 2005 Legislature for Medicaid provider rate increases in FY 2006. Beginning in FY 2007, the legislature appropriated health and Medicaid initiative funds for the state Medicaid match to increase eligibility for children by increasing the family asset limit from \$3,000 to \$15,000.

DP 11010 - Indian Health Services Caseload - This request adds \$7.5 million in federal funds for the biennium. The Montana Indian Health Service is making a concerted effort to identify all Medicaid eligible persons who are also Indian Health Service recipients and to bill appropriately for services. This program has had substantial growth in the past few years and is expected to continue to grow at 8 percent per year through the next biennium. This program is fully funded from federal funds.

DP 11025 - Rural Health & Fed Qualified Health Centers - Rural health clinic and Federally Qualified Health Center services are required Medicaid services. This request adds \$733,950 over the biennium. These facilities are paid an all-inclusive prospective payment amount per patient visit. The per visit payment amounts are increased each year based on the Medicare Economic Index (due to Benefit Improvement and Protection Act (BIPA)). The three most recent annual increases have been estimated at 2.6 percent in FY 2007, 3.0 percent in FY 2008, and 2.9 percent in FY 2009.

DP 11028 - Phased-down State Contribution Adjustment - This decision package adds \$15.6 million general fund over the biennium for the "clawback" payment required by the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA). States must pay a monthly fee for those individuals whose Medicaid drug coverage was assumed by Medicare Part D.

The "clawback" payment is adjusted each year based on several variables including:

- The number of persons eligible for both Medicare and Medicaid in Montana
- The base level per person payment calculated from 2003
- An inflation factor based on the National Health Index
- And a gradual reduction of the total amount owed from 90 percent to 75 percent over a period of time

**LFD
COMMENT**

The clawback payment could be adjusted upward if the Part D benefit cost exceeds 45 percent of total Medicare expenditures. If that were to happen, states would be subsidizing a program over which they had no control.

Under the MMA, the monthly payment amount is inflated by a national index and adjusted for changes in the state Medicaid match rate. Since the Montana state match rate increases in FY 2008 and FY 2009 compared to the base budget amount, the monthly clawback amount also increases.

The clawback estimate is based on data since January 2006 and will be updated for legislative consideration.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The MMA requires this payment.

Goal: Implementation of Part D shifted prescription drug costs for individuals eligible for both Medicare and Medicaid (dual eligibles) to Medicare. Previously, these individuals had received drug coverage through state Medicaid programs. The MMA section 1935(c) requires states and the District of Columbia to make monthly payments to the federal government beginning January 2006 to defray a portion of the Medicare drug expenditures previously pay by Medicaid. The percentage of state contributions to Medicare part D funding is reduced over a ten-year period.

Performance Criteria: Compliance with the MMA.

Milestones: DPHHS is creating a system for the reconciliation process with CMS to determine who is a fully dual eligible and insuring proper payment amounts are made to the federal government.

Obstacles: This payment is required by law. The current obstacle is that CMS does not provide a roster of whom it bills for each month.

Risk: If the phased-down state contribution (clawback) is not paid, the legislation requires CMS to disallow from the federal financial participation in a state's Medicaid expenditures any amounts which the state should have paid under section 1935 of the act. Because this is a disallowance of Medicaid funds, any state disagreements with the phased-down billing would have to be handled through the existing disallowance process under sec. 430.42 of the act.

DP 11040 - Hospital Cost Reports - The decision package requests \$500,000 over the biennium for hospital costs reports funded equally from general fund and federal funds. The reports are required by law and are used for calculating items such as hospital settlements. The hospital cost reports are currently provided by Montana Blue Cross Blue Shield (BCBS). As of October 2006, Montana BCBS is no longer the Medicare carrier and it will not be providing hospital cost reports.

LFD ISSUE	Since this is a service required by law, the division believes that it will cost more to purchase this information from another contractor. LFD staff has asked HRD to provide the documentation for the current contract amount. The legislature can then evaluate whether this request is sufficient to fund the contract.
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New Proposals

Sub Program	FTE	-----Fiscal 2008-----				-----Fiscal 2009-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 11011 - Dental Access										
01	0.00	400,000	555,000	2,087,370	3,042,370	0.00	400,000	555,000	2,077,709	3,032,709
DP 11012 - Hospital Utilization Fee (Requires Legislation)										
01	0.00	0	1,506,249	973,284	2,479,533	0.00	0	1,926,174	1,759,231	3,685,405
DP 11038 - Family Planning Waiver Implementation - OTO										
01	1.00	348,297	0	2,743,296	3,091,593	1.00	347,669	0	2,742,669	3,090,338
DP 11501 - Provider Rate Increases										
01	0.00	0	1,151,745	2,517,402	3,669,147	0.00	0	1,155,414	2,513,733	3,669,147
Total	1.00	\$748,297	\$3,212,994	\$8,321,352	\$12,282,643	1.00	\$747,669	\$3,636,588	\$9,093,342	\$13,477,599

DP 11011 - Dental Access - This request adds \$6.1 million over the biennium, including \$0.8 million general fund and \$1.2 million from the health and Medicaid initiatives state special revenue account, to enhance access to dental services for both adults and children in Medicaid, by raising reimbursement rates to 85 percent of billed charges for adults (age 18 and over) and children (age 17 and under). Current reimbursement is 58 percent of billed charges for adult services and 64 percent of billed charges for children’s services. The request assumes a 4 percent increase in utilization.

**LFD
ISSUE**

Rate increases are frequently seen as one way to enhance access to Medicaid services. However, rate increases do not always bring the expected results. If the legislature approves this request, it may wish to ask for documentation regarding changes in access to dental services to determine if the rate increase had the desired effect or if other actions would be necessary to increase access.

The legislature may wish to ask HRD how it currently measures access, what current access is using that measure, and what it hopes to achieve. The legislature may also wish to request that HRD provide an assessment of the impact on dental access if it approves this request.

The level of funding in the final executive budget is more than double the agency budget request, yet the rate and utilization changes noted in the budget documentation did not change. LFD staff has requested that HRD provide the documentation supporting this request so that the legislature can determine what additional services might be funded.

DP 11012 - Hospital Utilization Fee (Requires Legislation) - This request would fund continuation of the hospital utilization fee for the 2009 biennium. It adds \$6.2 million funds over the biennium, including \$3.4 million in state special revenue fee assessments. This request also makes adjustments for the reduction in the federal Medicaid match rate.

FY 2006 expenditures were \$37.7 million. This fee is used as state Medicaid match to draw down federal Medicaid matching funds and increase Medicaid reimbursement for hospitals. Rate increases would bring reimbursement levels to less than 100 percent of the cost of providing services as measured in the aggregate across all hospitals.

**LFD
ISSUE**

The legislature would need to enact legislation to continue the hospital utilization fee, which expires July 1, 2007. The fee was first authorized by the 2003 Legislature and continued by the 2005 legislative session. The fee conforms to federal rule. The current fee is \$27.70 for each inpatient bed day until January 1, 2007 when the fee can be established by rule. Hospitals may not place the fee on a patient's bill. While the funding to continue the hospital utilization fee and Medicaid payments is included in the executive budget, the Governor has not requested legislation to continue the fee.

**LFD
COMMENT**

Due to an oversight, the expenditures for the hospital utilization fee were not removed from the present law base budget. Since the fee sunsets July 1, 2007, the expenditures are not considered ongoing and should have been removed. The DPHHS present law budget is overstated by about \$37.7 million in FY 2006 and in each year of the 2009 biennium.

DP 11038 - Family Planning Waiver Implementation - OTO - This request for a one-time-only appropriation of \$0.7 million general fund and \$5.4 million federal funds for the biennium would fund the first two years of a five year family planning waiver. The program is expected to start July 2007 and would provide reproductive health services estimated at approximately \$480 per year to about 6,000 low-income women with incomes below 185 of the federal poverty who are of child-bearing age. The proposal assumes that there would be future Medicaid savings, but that costs would increase in the first two years of the waiver.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: This request would fund implementation of the family planning waiver to provide a limited array of family planning benefits, primarily contraceptives to about 6,000 low-income women.

Goals:

- Reduce the number of unplanned/unwanted pregnancies through coverage of family planning services for women at or below 185 percent of the federal poverty level in year 3, 4, and 5 of the waiver
- Improve access to and use of family planning services in all 5 years of the waiver
- Decrease the number of Medicaid paid deliveries in years 3, 4, and 5 of the waiver

Performance Criteria: Specific criteria include:

- Number of women receiving family planning services under the Montana Family Planning Project being between 6,000 and 10,000 during the first 3 years
- Number of live births for Medicaid and Medicaid eligible populations
- Costs of the family planning project itself

Evaluations of the capacity for the Montana Family Planning Project to increase enrollment shall occur every six months.

Milestones: After federal approval of the Montana Family Planning Project:

- The eligibility determination specialist would be hired within two months.
- Initial education of family planning services providers would take place within three months
- An ongoing statewide public information outreach campaign to initiate enrollment of recipients would occur within three months

Program enrollment capacity and progress toward goals would be evaluated at intervals delineated in the waiver application.

FTE: Funding for 1.00 grade 12 FTE is requested for eligibility determination.

Funding: Program services are funded 10 percent state general fund and 90 percent federal Medicaid funds. Administrative costs are funded equally between the state and federal government.

Obstacles: Potential obstacles include:

- Lack of recipient enrollment, which would be mitigated by increasing outreach efforts
- Resistance from providers, which would be mitigated by increasing provider education efforts
- Denial of waiver by the Centers for Medicare and Medicaid Services, which DPHHS would attempt to remedy by working with CMS to modify the waiver in compliance to its suggestions

Risk: If the Montana Family Planning Project is not adopted, the risk is that women with incomes under 185 percent of the federal poverty would continue to have unplanned/unwanted pregnancies, contributing to high expenditures for pregnancies, deliveries and associated costs.

LFD COMMENT	Some of the goals and performance criteria are not related to the risks if the proposal is not adopted. It is unclear how the performance criteria would measure whether risks are being mitigated through implementation of this proposal. The legislature may wish to ask HRD what base line data would be used and what numeric goals it would hope to achieve if this proposal were to be funded.
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DP 11501 - Provider Rate Increases - This request adds \$10.5 million, including \$2.3 million from the health and Medicaid initiatives state special revenue account for a 2.5 percent provider rate increase in FY 2008. Part of the rate increase is allocated to state plan services (\$7.3 million, including \$2.3 million state funds) and the remainder is allocated to children's mental health services (\$3.1 million, including \$1.0 million state funds).

**LFD
ISSUE**

The budget request does not include enough funds for a 2.5 percent rate increase for all services in either year of the biennium as explained in the executive budget. In addition, the funding in the executive budget does not rise in FY 2009 to pay the cost of the rate increase for caseload and service utilization growth in FY 2009.

Figure 65 shows selected services that the legislative staff believe would be included in the rate increase, except for hospital and pharmacy services. Hospital services were excluded because critical access hospital reimbursement is based on cost. Pharmacy rate increases are applied to the dispensing fee and not the cost of drugs. LFD staff requested documentation on the cost of hospital services subject to rate increases and number of scripts used to develop the rate increase in order to determine the rate increase for those services.

The legislature would need to add an additional \$437,816 state match from the health and Medicaid initiatives, to fully fund a 2.5 percent rate increase. LFD staff requested that HRD provide documentation showing which services were included in the 2.5 percent rate calculation. Staff will review the information and advise the legislature.

Figure 65 also shows the rate increase amount allocated in the executive request to selected services and the estimated percent increase supported by the allocation. Rate increases range from a high of 2.45 percent for acute services in FY 2008 to no rate increase for breast and cervical cancer treatment.

Figure 65
Executive Budget Request for Selected Provider Rate Increases
Compared to LFD Estimate

Service/Rate Estimate	Total Cost Subject to Rate Increase		Rate Increase for Each Service Based on Executive Request	
	FY 2008	FY 2009	FY 2008	FY 2009
Children's Mental Health Svcs	\$69,906,361	\$74,613,130	2.23%	2.09%
Managed Care Services	63,034,694	67,175,375	2.11%	1.98%
Acute Services	34,523,572	38,774,499	2.45%	2.19%
Cervical and Breast Cancer	<u>3,090,639</u>	<u>3,709,059</u>	0.00%	0.00%
Service Costs in the Exec. Budget	\$170,555,266	\$184,272,063		
LFD Estimate - 2.5% Rate Increase	4,263,882	4,606,802		
Executive Request for 2.5%*	<u>3,740,175</u>	<u>3,740,175</u>		
LFD Estimate Over (Under) Exec	\$523,707	\$866,627		
Additional State Match Needed	\$164,915	\$272,901		
Aggregate Rate Increase Funded by Executive Budget Request	2.2%	2.0%		
Cost of 1% Rate Increase	\$1,705,553	\$1,842,721		

*Pharmacy and hospital services rate increase amounts are not included in this calculation.

Sub-Program Details

CHILDREN'S HEALTH CARE RESOURCES 02

Sub-Program Proposed Budget

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	14.00	0.00	5.00	19.00	0.00	5.00	19.00	19.00
Personal Services	569,472	92,514	221,623	883,609	93,548	221,868	884,888	1,768,497
Operating Expenses	514,956	10,740	848,815	1,374,511	13,199	880,828	1,408,983	2,783,494
Benefits & Claims	19,549,018	3,137,449	4,567,593	27,254,060	3,137,449	4,535,335	27,221,802	54,475,862
Debt Service	2,282	0	0	2,282	0	0	2,282	4,564
Total Costs	\$20,635,728	\$3,240,703	\$5,638,031	\$29,514,462	\$3,244,196	\$5,638,031	\$29,517,955	\$59,032,417
General Fund	218,782	(218,782)	0	0	(218,782)	0	0	0
State/Other Special	3,993,350	1,242,752	1,236,420	6,472,522	1,286,501	1,246,569	6,526,420	12,998,942
Federal Special	16,423,596	2,216,733	4,401,611	23,041,940	2,176,477	4,391,462	22,991,535	46,033,475
Total Funds	\$20,635,728	\$3,240,703	\$5,638,031	\$29,514,462	\$3,244,196	\$5,638,031	\$29,517,955	\$59,032,417

Children's Health Care Resources administers the Children's Health Insurance Program (CHIP). The executive budget includes \$6.5 million for present law adjustments and \$11.3 million for a new proposal to fund department administration of CHIP rather than contacted administration and to support 5.00 new FTE. The single largest present law adjustment (about 96.7 percent of the total) requests funding to support a monthly caseload of 13,900 each year of the 2009 biennium compared to an annual average caseload of 12,019 in FY 2006.

Historically, the level of state funding has constrained the number of children that could be enrolled in CHIP, while federal funding has been more than adequate. Federal CHIP grants may be expended over three years before unspent balances must revert. Like some other states, Montana grew its program slowly in the first few years, leaving significant federal funding unspent, even with netting out reversions to the federal government. However, this biennium, federal funding may be the constraint that limits CHIP expansions or program changes.

Reauthorization of CHIP funding occurs in federal fiscal year 2008, which starts October 1, 2007. It is unclear whether current funding levels will be continued, expanded or reduced and just as important, how CHIP grant funds would be allocated among states. The reauthorization and allocation process are critical to implementation of the executive budget proposal.

Figure 66 shows estimated federal funds that carry forward into 2009 biennium after FY 2007, compared to the executive budget request. The federal grant amount is assumed to remain constant at \$15.7 million annually, but as noted, that amount is a significant unknown variable.

Figure 66
Federal CHIP Grant Funds Remaining at End of FY 2009

Estimated Expenditures, Executive Budget Request, Balance Remaining			
State Fiscal Year/ Federal Grant Year	Available Federal CHIP Funds	-----Estimated Expenditures/ Budget Request	Federal----- Unexpended Grant Funds
State FY 2007			
Federal 2005 Grant	\$8,523,971		
Federal 2006 Grant	12,558,064		
Federal 2007 Grant	<u>15,736,459</u>		
Total Federal Funds Available	\$36,818,494	\$16,744,182	\$20,074,312
State FY 2008			
Carry Forward	\$20,074,312		
Federal 2008 Grant*	<u>15,736,459</u>		
Total Federal Funds Available	\$35,810,771	\$23,014,940	\$12,795,831
State FY 2009*			
Balance Carry Forward	\$12,795,831		
Federal 2009 Grant*	<u>15,736,459</u>		
Total Federal Funds Available	\$28,532,290	\$22,991,535	\$5,540,755
Unexpended Federal Grant Balance in State FY 2009			\$5,540,755
First Quarter Costs for FY 2010 Based on Exec. Budget			\$5,747,884
*Federal reauthorization for CHIP occurs in 2008. These grant amounts may change depending on the reauthorization amounts and distribution formulas.			

The actual FY 2007 balance of available federal CHIP funding was \$36.8 million. About \$20.0 million is estimated to carry forward into FY 2008, which is almost enough to fund the FY 2008 executive budget request without additional federal grant funds.

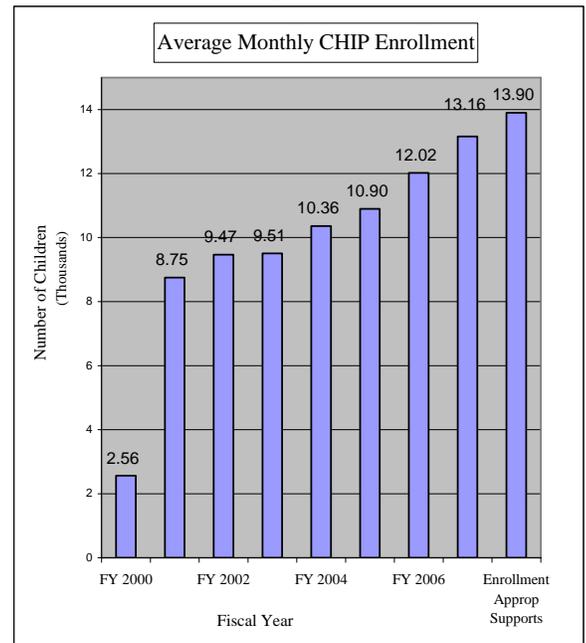
However, unless annual federal CHIP grants are increased, the CHIP program envisioned in the executive budget request could not be continued beyond the 2009 biennium without the addition of significant state resources. Since the base program level in the executive request is about \$5 to \$6 million above the current annual grant amount, the 2007 Legislature might need to make changes to the CHIP program if it accepts the executive budget request as presented. On the other hand, if the legislature believes that federal funding for CHIP will be increased and that Montana will share in that increase, it could chose to expand CHIP beyond the level included in the executive budget.

The level of CHIP enrollment is an issue central to the discussion of the adequacy of federal funding that the legislature may consider. Figure 67 shows average monthly CHIP enrollment for the most recent state fiscal years. The 2005 Legislature appropriated the amount of funding requested by the executive, which was anticipated to support an enrollment of 13,900 children. Due to an increase in the premium charged by the contractor, the appropriation would have been adequate to fund an enrollment of 13,600. Although enrollment has increased nearly every month, it has consistently lagged the level funded by the 2005 Legislature. Current program enrollment stands at an average of 13,163 over the first five months of FY 2007. The executive budget is based on an enrollment level of 13,900 children.

The 2005 Legislature changed statute to allow DPHHS to self administer CHIP. HRD evaluated the benefits and risks of self administration. A major risk for self administration is the potential of cost over runs due to high cost cases. Contracting for a fully insured product shielded HRD from cost over runs, but increased program administrative costs.

The level of CHIP enrollment is an issue central to the discussion of the adequacy of federal funding that the legislature may consider. Figure 67 shows average monthly CHIP enrollment for the most recent state fiscal years.

Figure 67



- LFD ISSUE** LFD staff has identified a number of issues for legislative consideration related to the executive budget request for CHIP. The issues are:
- Use of health and Medicaid initiative funds for a reserve fund and administrative costs does not comply with statute
 - The need for a reserve fund should be closely evaluated
 - The stated level of enrollment in the executive budget may not be achievable
 - The level of enrollment in the executive budget as supported by funding may be higher than 13,900
 - The overall cost of CHIP administration may be higher than when DPHHS contracted for a fully insured product

Health and Medicaid Initiatives Funds

Voters enacted I-149 in November 2004. The initiative raised tobacco taxes, established the health and Medicaid initiatives account to receive a portion of the tax increase, and specified the use of funds in the account, which include funding CHIP. The statute also includes two non supplantation tests for CHIP funds: 1) the level of state funds appropriated in the 2005 biennium; and 2) the level of enrollment in the 2005 biennium. Statute specifies that the funds may not “be used to support existing levels of enrollment based upon *appropriations* (emphasis added) for the biennium ending June 30, 2005 (53-6-1201(3)(a), MCA)”.

The non supplantation language applies to appropriations rather than expenditures and the level of enrollment in CHIP in the 2005 biennium. CHIP enrollment was 10,631 and the state funding appropriations totaled about \$6.1 million. The appropriations for CHIP were not fully expended that year and would have supported more than 10,631 children.

Legal Issues

Legal Services Division (LSD) staff has provided several legal opinions about the use of health and Medicaid initiatives account funds. The conclusions of the legal opinions were that account funds:

- Cannot be used for administrative costs or a reserve fund
- Must be used to increase enrollment levels above the 2005 biennium enrollment level
- Cannot be used to replace other state funding sources that contributed \$6.1 million in the 2005 biennium

Figure 68 shows the executive budget request for CHIP and the calculation of the amount of state matching funds that should be paid from state sources other than account funds. The executive budget shifts about \$3.0 million in state CHIP funds to the account which should be paid from other sources.

The amounts used in the calculation are drawn from the executive budget. The cost of providing services was based on enrollment of 10,631 times the annual benefit cost included in the executive budget.

Figure 68

Supplantation Calculation for Health and Medicaid Initiatives Account - CHIP Funding

Item	FY 2008	FY 2009
<u>Costs That Cannot Be Paid from Account</u>		
Personal Services	\$883,609	\$884,888
Operating Costs	1,374,511	1,408,983
Reserve Fund	1,700,000	0
Enrollment @ 10,631	<u>19,544,260</u>	<u>20,819,783</u>
Total Cost	\$23,502,380	\$23,113,654
<u>Executive Budget Funding</u>		
State Share of Costs that Cannot be Paid from Account	\$5,154,072	\$5,110,429
Non Account Funds in Executive Request	<u>3,722,522</u>	<u>3,853,519</u>
Total Account Funds in Excess of Statutory limits	<u>\$1,431,550</u>	<u>\$1,256,910</u>

**LFD
ISSUE
CONT.**

The legislature has several options to consider. It may choose to:

- Amend the non supplantation language in statute;
- Appropriate another source of state funds to offset the account funds in excess of statutory limits; or
- Evaluate and potentially revise the executive budget request to reduce the cost of providing services, thereby raising the amount of account funds that can be used to fund CHIP services.

Need for a Reserve Fund

The executive budget includes \$1.7 million for a reserve fund to pay high cost cases if they should occur. When the state contracted for a fully insured product, the contractor assumed the risk that claims costs might exceed the revenue available to pay them. Now the state will assume that risk.

However, the need for a reserve fund should be closely evaluated. As noted previously, the legislature would need to change statute to include the claims reserve as an allowable use of health and Medicaid initiatives account revenues.

The need for a reserve fund may be mitigated by the following program characteristics:

- CHIP claims costs are limited to \$1 million per child;
- It could be likely that a family could spend down its income and resources to pay high medical costs, making the unpaid balance eligible for Medicaid reimbursement; and
- CHIP enrollment could be reduced to provide revenues to pay high cost claims.

Level of Enrollment

CHIP enrollment levels have lagged behind levels anticipated by the 2005 Legislature. The average monthly FY 2006 enrollment was 12,019 compared to the 13,900 expected by the legislature, or about 13.5 percent lower. Premium increases in the fall of 2005 reduced the number of children that could have been covered by the FY 2006 appropriation to 13,600. However, enrollment was 1,300 below that level. Enrollment has not increased significantly in the first five months of FY 2007, averaging 13,170.

Enrollment gains have been slow, averaging 188 children per month in FY 2006 compared to 12 children per month in the first five months of FY 2007. A contributing factor to the FY 2007 slow down is a change in Medicaid eligibility for children authorized by the 2005 Legislature, which raised family asset limits from \$3,000 to \$15,000. That change will transition some children from CHIP to Medicaid because the families of some children covered by CHIP may have income within Medicaid limits (100 to 133 percent of the federal poverty level depending on the age of the child), but family resources in excess of \$3,000.

DPHHS staff is tracking the number of children referred from CHIP to Medicaid to determine how many children who left CHIP were enrolled in Medicaid. There may be information available for legislative consideration during the session.

**LFD
ISSUE**

In its review of the CHIP program appropriation request, the legislature may wish to consider the following issues:

- Is the enrollment goal funded in the executive request supported by the legislature?
- If so,
 - Will it be possible to achieve the enrollment level of 13,900 or more children in CHIP under current program outreach approaches and eligibility levels?
 - If not, what actions might be necessary to achieve that enrollment?
- If the legislature has an alternate enrollment goal, it may wish to take actions to effect that goal.
 - If the goal is lower than 13,900, the legislature may wish to consider reducing the CHIP budget request and use the state funds in other initiatives
 - If the goal is to raise enrollment, the legislature would face the same options as if it determines the executive budget enrollment level of 13,900 cannot be achieved without programmatic changes

Cost Increases for Self Administration

The 2005 Legislature enacted several statutory changes regarding the CHIP program, which included the authority for DPHHS to administer the program and a limitation on the premium amount of a fully insured product that could be used for administrative costs and profit of no more than 12 percent. A preliminary expectation was that DPPHS administration of CHIP would be more cost effective than contracting for a fully insured product, there by freeing up funds to insure more children.

Figure 69
Administrative and Services Cost Changes - Historic
Compared to the 2009 Executive Budget Request for CHIP

Fiscal Year	Monthly Enrollment	Rate of Change	Services Cost	Rate of Change	Admin Cost	Rate of Change
2000	3,412		\$113.91		\$13.95	
2002	9,471	66.6%	\$119.20	2.3%	\$8.02	-24.2%
2004	10,364	4.6%	\$126.01	2.8%	\$7.35	-4.3%
2006	12,019	7.7%	\$135.55	3.7%	\$7.53	1.3%
2008	13,900	7.5%	\$153.20	6.3%	\$13.55	34.1%
2009	13,900	0.0%	\$163.20	6.1%	\$13.77	1.6%

DPHHS began administering the CHIP program October 2006. The executive budget request for CHIP includes cost increases related to administration and services. Figure 69 shows the annual compounded rate of change for historic experience compared to the executive budget request.

As stated, prior to FY 2007, the state contracted for a fully insured product. Premium payments included funds for services costs, some administrative costs and profit. Combined increases in administrative and services costs were much lower under a fully insured product than those projected for self administration in the executive budget. For instance, the total cost per child covered in FY 2006 was \$143.08 per month compared to \$166.75 in FY 2008 and \$176.97 in FY 2009. Historically, the annual growth rate was 1.6 percent to purchase a fully insured product compared to 7.3 percent annual growth rate for self administration.

HRD derived its average cost for CHIP services using the full premium amount paid in the base year. It did not estimate and remove the portion of premium payments that supported the insurer’s administrative costs and profit. Premiums for a fully insured product include the insurer’s administrative costs and an allowance for profit. Assuming the maximum allowable for administration and profit, FY 2006 claims amounts could be as much as \$15 per month per child lower than listed in Figure 69. \$15 per month is the portion of the premium that could be allocated to fund administrative costs and profits under the statutory cap. The remainder of the monthly premium (\$120.55) is the portion that would support service costs. HRD trended the total premium cost forward as if it were entirely service costs. HRD treated the administrative portion of premiums as services costs when it developed service cost trends. Therefore its estimates for service costs are up to \$2.5 million higher than necessary. The executive budget would have funding sufficient to insure up to another 1,300 children each year.

LFD ISSUE CONT.	<p>DPHHS began paying claims costs in October 2006. LFD staff will evaluate the most recent data when the legislature considers the executive budget request. Based on that review and information presented in Figure 69, the legislature may wish to modify:</p> <ul style="list-style-type: none"> ○ CHIP appropriation levels ○ Expected enrollment levels ○ Administrative cost requests
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Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2008-----				-----Fiscal 2009-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					120,097					121,175
Vacancy Savings					(27,583)					(27,627)
Inflation/Deflation					2,543					2,570
Fixed Costs					8,197					10,629
Total Statewide Present Law Adjustments					\$103,254					\$106,747
DP 11006 - CHIP FMAP Match Rate	0.00	0	313,283	(313,283)	0	0.00	0	350,424	(350,424)	0
DP 11009 - CHIP Enrollment	0.00	(262,626)	611,166	2,788,909	3,137,449	0.00	(269,432)	523,952	2,882,929	3,137,449
Total Other Present Law Adjustments	0.00	(\$262,626)	\$924,449	\$2,475,626	\$3,137,449	0.00	(\$269,432)	\$874,376	\$2,532,505	\$3,137,449
Grand Total All Present Law Adjustments					\$3,240,703					\$3,244,196

DP 11006 - CHIP FMAP Match Rate - This request adds \$0.7 in tobacco settlement funds over the biennium and reduces federal funds by the same amount because the federal match rate declines from 79.62 percent in the base budget year to 78.07 percent in FY 2008 and 77.89 percent in FY 2009.

DP 11009 - CHIP Enrollment - This request adds \$1.1 million state special revenue from tobacco settlement revenue and from the health and Medicaid initiatives account and \$5.7 million in federal funds over the biennium to fund increased enrollment in CHIP.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: CHIP has actively recruited over the past year and has seen a steady increase in enrollment. The CHIP program is partially funded with tobacco tax revenue from the health and Medicaid initiatives account. This decision package provides the appropriation authority for the projected cash flow in FY 2008 and FY 2009.

Goals: The goal is to increase the number of Montana children at or below 150 percent of the federal poverty level who are insured by:

- Providing information about CHIP eligibility and benefits to low income families, providers, community advocates and the public
- Enrolling eligible children in CHIP (actual number to be based on available state and federal funding)
- Determining potential Medicaid eligibility for children whose families apply for CHIP and forwarding the applications to local Offices of Public Assistance for Medicaid eligibility determination

Performance Criteria: CHIP monthly enrollment reports, quarterly fiscal performance reports, and quarterly healthcare management (benefit utilization) reports are produced and evaluated.

Milestones: CHIP has 13,220 children enrolled as of November 2006.

FTE: No additional FTE are needed.

Funding: The program is funded through tobacco tax revenue deposited to the health and Medicaid initiatives account and federal grant funds.

Obstacles:

- o Some Montana families may believe their children would not be eligible for CHIP.
- o Some Montana families may not be interested in enrolling their children in a publicly funded health insurance plan

Risks: Federal government participation (either through reductions in grant awards or matching requirements) could decline causing more costs to be absorbed by the state. This reduction could be mitigated by the authorizing statute which allows the state to adjust eligibility criteria or benefits to match the appropriation (53-4-1004(4), MCA). CHIP is not an entitlement program.

LFD COMMENT	The goals and performance criteria aptly apply to CHIP enrollment, but don't follow the specific, measurable, attainable, realistic and time-bound (SMART) criteria. But, beyond adding children to CHIP, the legislature has no other data with which to evaluate the worth of appropriations supporting CHIP services. Declining federal participation is always a risk in a federally funded program. Other program risks, including the challenge of enrolling children up to the funded level, are not mentioned, yet enrollment has proven a significant challenge this biennium.
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New Proposals

Sub Program	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 11013 - CHIP Self Administration										
02	5.00	0	1,236,420	4,401,611	5,638,031	5.00	0	1,246,569	4,391,462	5,638,031
Total	5.00	\$0	\$1,236,420	\$4,401,611	\$5,638,031	5.00	\$0	\$1,246,569	\$4,391,462	\$5,638,031

DP 11013 - CHIP Self Administration - This decision package requests \$11.3 million over the biennium for 5.00 FTE and start-up costs for the department to self-administer the CHIP program. The state match is funded from the health initiatives and Medicaid account.

The new FTE would provide customer service, provider enrollment/support, contract, and claims monitoring, inpatient pre-certification, prior authorization, and data management. Funding is included for programming changes to the data system to accommodate self-administration. Finally, the request includes a \$1.7 million reserve account to pay unanticipated, high-cost medical claims.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: HRD included language identical to the description of the proposal as the justification.

Goals: Decrease the administrative costs of providing health insurance to children enrolled in CHIP. Decrease the number of Montana children at or below 150 percent of the federal poverty level (FPL) who are uninsured by:

- Providing information about CHIP eligibility and benefits to low income families, providers, community advocates and the public
- Enrolling eligible children in CHIP (actual number to be based on available state and federal funding)
- Determining Medicaid potential eligibility for children whose families apply for CHIP and forwarding the applications to local Offices of Public Assistance

Performance Criteria: CHIP monthly enrollment reports, quarterly fiscal performance reports, quarterly healthcare management (benefit utilization) reports are produced and evaluated.

Milestones: CHIP had 13,220 children enrolled as of November 2006.

FTE: The decision package requests funding for 5.00 FTE to perform administrative services which are currently performed by Montana Blue Cross Blue Shield employees and to provide contract management services.

Funding: The program is funded through tobacco tax revenue deposited in the health initiatives and Medicaid account and federal grant funds.

Obstacles: Extensive work needs to be done to enroll providers, pay claims at rates equivalent to current CHIP rates, hire and train DPHHS staff, and assure continuous access to health care services for CHIP children.

Risks: Federal participation (either through reductions in grant awards or matching requirements) could possibly decline causing more costs to be absorbed by the state. Federal funding declines can be mitigated by adjustments to eligibility criteria or benefits to match the appropriation (53-4-1004(4), MCA). CHIP is not an entitlement program.

**LFD
COMMENT**

The justification does not comment on why the proposal is before the legislature. The goals are related to the expenditure request, but how the goals will be measured is not specified, the performance criteria are general, and the milestones are not related to the goals and performance criteria. As discussed previously, the executive budget does not have sufficient documentation to determine the per child administrative cost included in the appropriations. Declining federal participation is always a risk in a federally funded program. Other program risks, including the challenge of enrolling children up to the funded level, is not mentioned and have proven a significant challenge this biennium.

Sub-Program Details

CHILDREN'S MENTAL HEALTH SERVICES 03

Sub-Program Proposed Budget

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	17.00	0.00	0.00	17.00	0.00	0.00	17.00	17.00
Personal Services	589,324	258,996	0	848,320	261,133	0	850,457	1,698,777
Operating Expenses	1,400,419	2,757	0	1,403,176	3,401	0	1,403,820	2,806,996
Grants	189,278	0	0	189,278	0	0	189,278	378,556
Benefits & Claims	59,417,489	10,488,872	1,759,709	71,666,070	15,195,641	1,759,709	76,372,839	148,038,909
Total Costs	\$61,596,510	\$10,750,625	\$1,759,709	\$74,106,844	\$15,460,175	\$1,759,709	\$78,816,394	\$152,923,238
General Fund	17,165,351	4,315,335	200,000	21,680,686	5,868,656	200,000	23,234,007	44,914,693
State/Other Special	1,252,354	590,432	489,593	2,332,379	392,028	491,152	2,135,534	4,467,913
Federal Special	43,178,805	5,844,858	1,070,116	50,093,779	9,199,491	1,068,557	53,446,853	103,540,632
Total Funds	\$61,596,510	\$10,750,625	\$1,759,709	\$74,106,844	\$15,460,175	\$1,759,709	\$78,816,394	\$152,923,238

The 2009 biennium budget request for children’s mental health services grows \$29.7 million, including \$10.6 million general fund, compared to base budget expenditures. The most significant increase supports anticipated growth in Medicaid costs - \$23.2 million in total funds and \$7.3 million general fund. Provider rate increases add \$3.1 million total funds and \$1.0 million from the health and Medicaid initiatives state special revenue account. The reduction in the federal Medicaid match rate adds \$2.5 million general fund and reduces federal funds by a like amount.

LFD COMMENT

In previous sessions, the legislature has expressed concern about the number of children placed in high end services and the number of children placed out of state. In the 2005 biennium, the legislature specifically directed DPHHS to collaborate with other agencies and providers to address the high cost children’s cases with the goal of developing appropriate services close to the home community of the child.

Figure 70 shows the number of children served in residential treatment centers (RTCs). The figure compares the number of out of state placements to the number of in-state placements and the average cost per child for out of state services compared to in state services. The total number of children placed in RTCs declined from 529 to 456 in FY 2004, when it began to gradually increase. In FY 2006, the total reached 488, still below the number in FY 2002.

Figure 70 also shows the per child cost over the same time period. The cost per child for an in-state placement has risen from FY 2002 to FY 2006, from \$27,683 annually to \$32,231 in FY 2006. Out-of-state placement costs have fallen and risen, but the FY 2006 cost of \$43,269 is below the FY 2002 cost of \$51,449.

Figure 70

**Children's Mental Health
Cost per Child and Number Served
Out of State vs In State**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Cost In State	\$27,683	\$25,389	\$29,945	\$29,993	\$32,231
Cost Out of State	\$51,449	\$40,500	\$46,818	\$48,724	\$43,269
In State Placements	444	488	418	423	393
Out of State Placements	85	59	38	35	95

LFD ISSUE Despite the overall decrease in children placed in RTCs since FY 2002, recent experience in out-of-state placements is not favorable, rising from a low of 35 children in FY 2005 to 95 in FY 2006. This increase occurred despite efforts to develop community structures (Kids Management Authorities – KMAs) to help maintain children in their homes if possible and within their local community if they need services outside their home. The legislature may wish to request that HRD provide its plan to help stem the increase in out of state placements and it may wish to request that HRD provide progress reports during the interim.

LFD ISSUE The federal Centers for Medicare and Medicaid Services has required some states, including Colorado, to change its method of Medicaid billing practices for children’s mental health services. CMS is requiring some states to “unbundled” rates, which means that providers must bill for discrete units of service rather than an amount that reimburses a number of activities. The Montana developmental disability (DD) system is completing its multi year effort to unbundled Medicaid rates, which has cost at least \$1 million in consulting fees and resulted in requests for rate increases in excess of 9.0 percent for Medicaid funded services.

Montana children’s mental health providers met with Colorado providers to understand the implications of unbundling rates in the Montana system. Legislative staff has requested that HRD address this issue with the legislature and assess what impacts might be expected if Montana is required to unbundled rates.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2008-----					-----Fiscal 2009-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
				294,343					296,569	
				(35,347)					(35,436)	
				473					502	
				2,284					2,899	
Total Statewide Present Law Adjustments				\$261,753					\$264,534	
DP 11002 - Medicaid Caseload - Children's Mental Health	0.00	2,900,429	0	6,339,548	9,239,977	0.00	4,393,079	0	9,557,633	13,950,712
DP 11005 - FMAP MATCH Rate for FY2008/FY2009	0.00	1,218,058	0	(1,218,058)	0	0.00	1,277,476	0	(1,277,476)	0
DP 11007 - Medicaid Tobacco Portion -I-149	0.00	0	392,028	856,867	1,248,895	0.00	0	392,028	852,901	1,244,929
DP 11031 - CMH - Direct Care Wage Biennial	0.00	0	198,404	(198,404)	0	0.00	0	0	0	0
Total Other Present Law Adjustments				\$5,779,953	\$10,488,872	0.00	\$5,670,555	\$392,028	\$9,133,058	\$15,195,641
Grand Total All Present Law Adjustments				\$10,750,625					\$15,460,175	

DP 11002 - Medicaid Caseload - Children's Mental Health - This proposal adds \$24.2 million total funds over the biennium, including \$7.3 million general fund for increases in children’s mental health Medicaid services. Base level expenditures were \$54.7 million total funds including \$15.2 million general fund.

**LFD
COMMENT**

Figure 71 shows the total children’s health Medicaid budget request compared to base budget expenditures. The FY 2008 budget request rises at annual growth rate of 14.4 percent compared to FY 2006 costs and the FY 2009 request grows at 11.8 percent annually from the base budget. These growth rates are in excess of other Medicaid services administered by HRD. Hospital costs, not including the utilization fee, grow at 6.5 percent and 5.4 percent for FY 2008 and FY 2009 respectively and pharmacy costs grow 8.1 and 9.1 percent.

Figure 71
2009 Biennium Executive Budget Request - Children's Mental Health Services

Services and Budget Changes	FY 2008 Budget Request				FY 2009 Budget Request				Percent of Total
	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	
<u>Children's Mental Health Services Base Cost</u>	\$15,247,280	\$1,252,354	\$38,215,408	\$54,715,042	\$15,247,280	\$1,252,354	\$38,215,408	\$54,715,042	71.6%
DP 11002 Caseload Increase	2,900,429	0	6,339,548	9,239,977	4,393,079	0	9,557,633	13,950,712	18.3%
PL 11005 FMAP Match Rate for 08/09	1,218,058	0	(1,218,058)	0	1,277,476	0	(1,277,476)	0	0.0%
PL 11007 Medicaid Tobacco Portion I-149	0	392,028	856,867	1,248,895	0	392,028	852,901	1,244,929	1.6%
NP 11501 Provider Rate Increases	0	489,593	1,070,116	1,559,709	0	491,152	1,068,557	1,559,709	2.0%
NP 11901 System of Care Sustainability	200,000	0	0	200,000	200,000	0	0	200,000	0.3%
Case Management Services	<u>1,374,015</u>	<u>0</u>	<u>3,328,432</u>	<u>4,702,447</u>	<u>1,374,015</u>	<u>0</u>	<u>3,328,432</u>	<u>4,702,447</u>	<u>6.2%</u>
Subtotal Children's Mental Health Services	\$20,939,782	\$2,133,975	\$48,592,313	\$71,666,070	\$22,491,850	\$2,135,534	\$51,745,455	\$76,372,839	100.0%
Annual Growth Rate of from Base	17.2%	30.5%	12.8%	14.4%	13.8%	19.5%	10.6%	11.8%	
Cost of 2.5% Provider Rate Increase*	\$0	\$548,590	\$1,199,069	\$1,747,659	\$0	\$587,392	\$1,277,936	\$1,865,328	2.4%
Additional Funding Needed	<u>0</u>	<u>58,997</u>	<u>128,953</u>	<u>187,950</u>	<u>0</u>	<u>96,240</u>	<u>209,379</u>	<u>305,619</u>	
Biennial Total	\$0	\$155,237	\$338,332	\$493,569	\$0	\$155,237	\$338,332	\$493,569	

*The provider rate increase is not applied to the system of care sustainability request.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: This request reflects the caseload growth in children's mental health. Failure to account for changes in caseload would materially misstate present law service costs.

Goal: Continue to provide high quality services to about 9,500 seriously emotionally disturbed Medicaid eligible children who require the level of medical services provided by this program. To the extent possible, the department will control the growth of these Medicaid entitlements so they don't consume unnecessary resources by aggressively managing the program and investing in program areas that promote cost avoidance.

Performance Criteria: Eligible individuals will continue to receive appropriate care as authorized by program rules. Staff will monitor program budgets monthly to insure that program is operating within funding levels as appropriated and utilization is consistent with expected program growth rates.

Milestones: The program will monitor budget activity monthly and annually to operate program expenditures within appropriated funding levels over the course of the biennium.

FTE: No additional FTE will be required for this increase in caseload for these services.

Funding: The funding for this proposal is at the Medicaid program matching rate of about 31 percent state general fund and about 69 percent federal.

Obstacles: Shortages of provider resources who are willing and able to provide these services are an issue. Continuation of provider rate increase and provider rate adjustments focused at health care workers such as the direct care wage initiatives approved in the 2005 legislative session can help in assuring access to care.

Risk: If increases in funding are not approved it is expected that expenditures will exceed the budgeted authority as demand for services rises and as more children become eligible and access services. If resources are not available to meet the increased demand, modifications or reductions to the services package that can be offered will result. Cutting services is not a recommended option, since services have been limited to those which are required and necessary to maintain a viable Medicaid program.

**LFD
COMMENT**

The executive budget includes the same language for the evaluation criteria in all significant Medicaid adjustments. Program goals are broad, general, and unrelated to children's mental health outcomes. Performance criteria do not measure whether the goal of funding high quality care is achieved nor whether the right services are delivered at the right time.

In public presentations, children's mental health staff has outlined numerous challenges related to providing appropriate community services, bringing children home from out of state placements and development of local kids' management authorities. None of the items important to program issues or elements are referenced in the executive budget.

DP 11005 - FMAP MATCH Rate for FY2008/FY2009 - This decision package reflects the reduction in federal Medicaid match rate (FMAP). In total, the FMAP adjustment adds \$14.5 million in general fund and reduces federal funds by a like amount. Most of the change is for state plan services, which rises by \$12.0 million general fund with a like reduction in federal funds. This adjustment also adds \$2.5 million in general fund for children's mental health services and reduce federal funds by the same amount to account for the funding shift necessary to maintain FY 2006 funded services.

DP 11007 - Medicaid Tobacco Portion -I-149 - This request reduces general fund by \$0.2 million each year and increases health and Medicaid initiatives state special revenue by \$2.9 million each year to annualize provider rate increases and service expansions authorized by the 2005 Legislature. The state match for rate increases was partially funded from general fund in the base year, but fully funded from state special revenue in FY 2007. This request would also provide the state matching funds for the eligibility change in FY 2007 authorized in 53-6-113(6), MCA, which established resource limits for Medicaid eligibility for children at \$15,000.

DP 11031 - CMH - Direct Care Wage Biennial - This request would fund the federal match rate change for direct care worker wage increase in children’s mental health services funded by the 2005 Legislature. This request increases health and Medicaid initiative account funds by \$213,085 over the biennium and reduces federal funds by a like amount.

New Proposals

New Proposals										
Sub Program	FTE	Fiscal 2008				Fiscal 2009				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 11501 - Provider Rate Increases										
03	0.00	0	489,593	1,070,116	1,559,709	0.00	0	491,152	1,068,557	1,559,709
DP 11901 - System of Care Sustainability										
03	0.00	200,000	0	0	200,000	0.00	200,000	0	0	200,000
Total	0.00	\$200,000	\$489,593	\$1,070,116	\$1,759,709	0.00	\$200,000	\$491,152	\$1,068,557	\$1,759,709

DP 11501 - Provider Rate Increases - This request adds \$10.5 million, including \$2.3 million from the health and Medicaid initiatives state special revenue account for a 2.5 percent provider rate increase in FY 2008. Part of the rate increase is allocated to state plan services (\$7.3 million, including \$2.3 million state funds) and the remainder is allocated to children’s mental health services (\$3.1 million, including \$1.0 million state funds).

LFD ISSUE The executive request for the provider rate increase in FY 2009 is not sufficient to cover the cost of continuing the rate increase when caseload and service utilization increases are considered. Additionally, if all mental health services for children, including targeted case management, are to receive a rate increase, the amount requested in the executive budget is sufficient to fund an increase of 2.23 percent in FY 2008 and 2.09 percent in FY 2009.

DP 11901 - System of Care Sustainability - This request adds \$400,000 general fund for the biennium for system of care (SOC) sustainability. The SOC infrastructure is a network of local interagency teams known as Kids Management Authorities (KMA’s) and a state level oversight committee. Currently, the state is overseeing the administration of the third year of a six-year federal grant that is matched by local funds from the KMA. This grant is intended to help local communities establish a system of care for children who need mental health services, particularly those children with serious emotional disturbances. This funding would assist the state in providing leadership in the development of KMA’s in local communities. KMA teams are multi-agency community organizations made up of parents, youth, state agencies serving youth, other programs who serve Montana’s youth, such as juvenile justice, schools, community leaders, Tribal representatives, providers and advocates.

LFD COMMENT The legislature may want to request performance and outcome measures if it approves this request. In some areas of the state KMAs are up and functioning, while development of KMAs lags in other areas. The legislature could also request that HRD provide an evaluation of the proposal.

LFD staff has asked whether this funding could be used as matching funds for the federal grant that HRD received to support development of the system of care. LFD has also asked HRD to explain the amount of matching funds required for the grant by fiscal year and to show where the source of match is funded in the executive budget.

Sub-Program Details

PRESCRIPTION DRUG PROGRAM 05

Sub-Program Proposed Budget

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	9.00	0.00	0.00	9.00	0.00	0.00	9.00	9.00
Personal Services	233,497	168,208	0	401,705	169,743	0	403,240	804,945
Operating Expenses	491,210	5,132	0	496,342	6,455	0	497,665	994,007
Benefits & Claims	206,364	7,645,589	0	7,851,953	7,642,731	0	7,849,095	15,701,048
Total Costs	\$931,071	\$7,818,929	\$0	\$8,750,000	\$7,818,929	\$0	\$8,750,000	\$17,500,000
State/Other Special	931,071	7,818,929	0	8,750,000	7,818,929	0	8,750,000	17,500,000
Total Funds	\$931,071	\$7,818,929	\$0	\$8,750,000	\$7,818,929	\$0	\$8,750,000	\$17,500,000

The Big Sky Rx program helps Medicare eligible persons with incomes below 200 percent of the federal poverty level pay the monthly premium cost for Medicare Part D drug coverage. Currently, Big Sky Rx participants can receive \$33.11 per month toward a premium payment. The program was initiated by the 2005 Legislature in response to the citizen passed initiative in November 2004 (I-149) that raised taxes on tobacco products and specified how the funds could be used, including prescription drug assistance for low-income persons (53-6-1201(2)(b), MCA).

LFD ISSUE Big Sky Rx enrollment was 3,196 in October 2006. Big Sky Rx would need to expand about 422 percent in the final seven months of FY 2007 to be on track to spend at levels included in the 2009 biennium executive budget (19,672 in FY 2008). HRD has run an outreach campaign using print, radio, and television media to advertise Big Sky Rx. However, the eligible population has proven difficult to reach.

The executive budget appears to be based on a fixed dollar request for the Big Sky Rx program, with the number of beneficiaries that would actually enroll a best guess. LFD staff requested the documentation supporting the executive budget request for Big Sky Rx. The following quotation is the documentation provided by HRD.

The estimate of 20,000 is a reasonable estimate as seniors apply for the program. HRD currently does not have specific information from Social Security or Medicare regarding the number of beneficiaries who may meet our income guidelines because the information is not shared by either Social Security or Medicare with states. It is hard to make educated estimates without this information so 20,000 by 2009 remains our best estimate.

**LFD
ISSUE
CONT.**

Figure 72 shows the actual enrollment in Big Sky Rx through October 2006 and several LFD estimates through the end of FY 2009. There would need to be a significant increase in enrollment over the next seven months to achieve the FY 2008 level funded by the executive budget. Enrollment in Big Sky Rx would need to grow by 16,556 persons over the next seven months, adding about 2,400 persons each month, to reach the executive budget level of 19,762. The single largest monthly increase was the initial enrollment at 862, with an average enrollment of 355 over the first nine months of program operation.

LFD staff developed high, medium and low scenario enrollment estimates for Big Sky Rx. The LFD scenarios assume that average monthly premium assistance remains at \$33.11 throughout the 2009 biennium. The high, medium and low scenarios assume different monthly enrollment increases, using different combinations of actual program experience.

The high scenario assumes that enrollment grows at the average increase over the first nine months of program experience (355 persons each month) through the end of the 2009 biennium. The medium and low scenarios use various combinations of recent enrollment trends, but above the most recent four month average of 72 enrollees per month.

Figure 73 shows the 2007 biennium appropriations and expenditures for Big Sky Rx compared to the executive request and the funding necessary to support the LFD high enrollment scenario. The high scenario estimate assumes a Big Sky Rx annual enrollment of 8,340 in FY 2008 and 11,710 in FY 2009, significantly below the executive budget assumptions. The LFD high scenario estimate is \$8.4 million lower over the biennium than the executive request, while the LFD medium enrollment scenario is \$11.9 million lower.

If the legislature opts to fund the executive budget request as it is submitted, it might want to consider restricting the appropriation to support Big Sky Rx. Otherwise, there could be significant appropriation authority in the DPHHS budget to implement health policy initiatives not considered by the legislature.

The legislature may wish to reduce the appropriation to continue Big Sky Rx if it decides that enrollment will lag executive expectations. Even if the legislature funded Big Sky Rx for a gradual increase in enrollment up to a certain level by the end of FY 2009, that decision would free up health and Medicaid initiatives funds and allow the legislature to support its own policy initiatives. The health and Medicaid initiatives account must be used for specific purposes as explained in the agency narrative. The fund balance estimate for the account is also shown in the agency narrative.

Figure 72

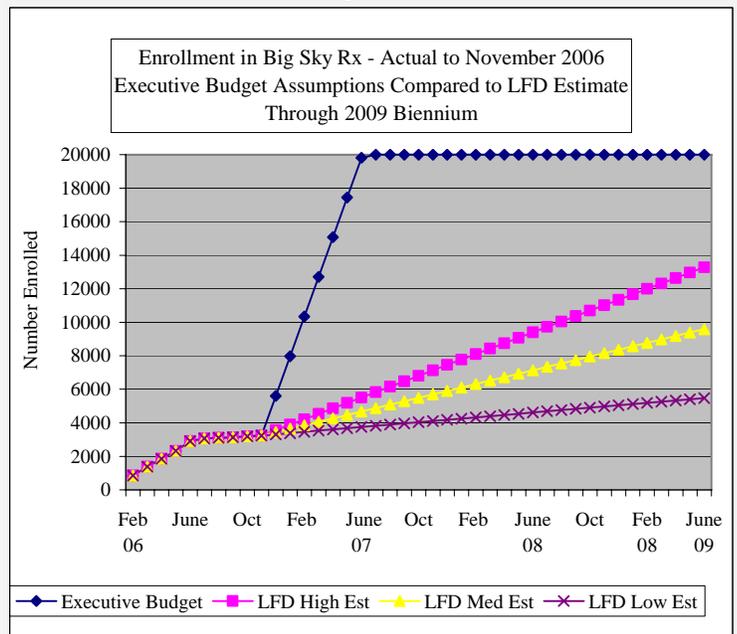


Figure 73

2007 and 2009 Biennia Big Sky Rx Costs and Funding				
Executive Budget Request Compared to LFD High Scenario Estimate				
Funding/Expenditures	FY 2006	FY 2007	FY 2008	FY 2009
Funding				
Start Up Appropriations	\$1,962,756	\$3,207,484	\$765,244	\$765,244
Regular Appropriation	<u>6,000,000</u>	<u>8,500,000</u>	<u>8,570,000</u>	<u>8,500,000</u>
Total Funding	\$7,962,756	\$11,707,484	\$9,335,244	\$9,265,244
Administration*				
	\$724,707	\$1,977,178	\$898,047	\$900,905
Benefits**	<u>206,364</u>	<u>2,884,146</u>	<u>7,851,953</u>	<u>7,849,095</u>
Total Expenditures	\$931,071	\$4,861,324	\$8,750,000	\$8,750,000
Annual Change from Base Budget		422.1%	206.6%	111.0%
Appropriation Balance Remaining	\$7,031,685	\$6,846,160		
LFD Benefit Expenditure Estimate - High			\$3,026,386	\$4,249,238
Executive Over (Under) LFD Biennial Amount			\$4,825,567	\$3,599,857
*Administrative portions of the appropriation were assumed to be fully expended in FY 2007.				
**Benefits were estimated as if there were steady enrollment to reach the level funded in the executive request beginning in FY 2008, which appears to be highly unlikely.				

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2008				Fiscal 2009					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					184,947					186,544
Vacancy Savings					(16,739)					(16,801)
Inflation/Deflation					341					368
Fixed Costs					4,791					6,087
Total Statewide Present Law Adjustments					\$173,340					\$176,198
DP 11008 - Big Sky Rx Base Adjustment	0.00	0	7,645,589	0	7,645,589	0.00	0	7,642,731	0	7,642,731
Total Other Present Law Adjustments	0.00	\$0	\$7,645,589	\$0	\$7,645,589	0.00	\$0	\$7,642,731	\$0	\$7,642,731
Grand Total All Present Law Adjustments					\$7,818,929					\$7,818,929

Statewide present law adjustments are predominantly for personal services. The program was authorized by the 2005 Legislature and ramped up the first six months of FY 2006. Although all but 1.00 of the 9.00 funded FTE has been filled, there were partial year vacancies during FY 2006 so the personal services adjustment is significant for a program of this size.

DP 11008 - Big Sky Rx Base Adjustment - This decision package requests \$7.6 million each year of the biennium from the health and Medicaid initiatives account.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The Big Sky Rx program was started in January 2006. Base year expenditures reflect only a partial fiscal year's worth of costs, since the Medicare Part D program was implemented January 1, 2006. The program, funded through the health and Medicaid initiatives account, pays up to \$33.11 per month for the Medicare prescription drug plan monthly premium. HRD anticipates an estimated 20,000 individuals would be enrolled at this funding level.

Goals: The program has established the program infrastructure and is making premium assistance payments. The base adjustment is necessary to reach full service capacity for 20,000 individuals.

Performance Criteria: Big Sky Rx monthly enrollment reports as well as quarterly fiscal performance reports are produced and evaluated.

Milestones: The program hopes to reach full capacity to serve 20,000 individuals by the end of FY 2009.

FTE: Eight of the 9.00 FTE funded for the program have been hired with one position still vacant. The vacant position would manage a rebate program from drug manufacturers to fund other prescription drug assistance programs. The FTE which are filled are:

- 1) Pharmacy assistance supervisor
- 1) Program officer
- 1) Analyst
- 1) Media outreach officer
- 4) Eligibility specialists

Funding: The program is funded through tobacco tax revenue from I-149. To date HRD has spent \$931,071 of the \$8.0 million FY 2006 appropriation.

Obstacles: Enrollment has been rising slower than anticipated. The Medicare beneficiary population eligible for Big Sky Rx has been proven hard to reach both statewide and on a national basis. Medicare Part D has been very confusing to beneficiaries and the May 15, 2006 end of open enrollment negatively affected Big Sky Rx enrollment.

Risks: Big Sky Rx would not continue to pay Medicare Part D premiums to those Montanans currently enrolled and would not be able to pay premiums for the remainder of the 20,000 potential enrollees. Many of these individuals would not/may not be able to pay the out-of-pocket premium and would not receive the Part D prescription drug benefit and might go without prescription drugs.

**LFD
COMMENT**

The goal and performance criteria are very general. The stated risks could occur even if the legislature approves the increase requested in the executive budget.

The legislature may wish to ask for enrollment goals and milestones and determine the appropriation based on those goals and milestones. The legislature may also wish to request progress reports to a standing interim committee.

The legislature may also wish to evaluate staffing and administrative cost needs since the projected enrollment is significantly below expectations and the staffing levels were based on the higher, anticipated enrollment level.

Sub-Program Details

PREMIUM ASSISTANCE PROGRAM 06

Sub-Program Proposed Budget

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	1.00	0.00	0.00	1.00	0.00	0.00	1.00	1.00
Personal Services	0	44,059	0	44,059	44,104	0	44,104	88,163
Total Costs	\$0	\$44,059	\$0	\$44,059	\$44,104	\$0	\$44,104	\$88,163
General Fund	0	286	0	286	308	0	308	594
State/Other Special	0	21,744	0	21,744	21,744	0	21,744	43,488
Federal Special	0	22,029	0	22,029	22,052	0	22,052	44,081
Total Funds	\$0	\$44,059	\$0	\$44,059	\$44,104	\$0	\$44,104	\$88,163

This program was funded by the 2005 Legislature, but not initiated during the 2007 biennium. It is contingent on federal approval of the HIFA waiver, which is discussed in greater detail in the Director’s Office budget analysis.

The HIFA waiver was initially proposed by the Medicaid redesign group that met during the 2005 biennium. The 2005 Legislature approved the waiver concept and funding for components of the waiver. Due to extensive state review of the waiver, including evaluation by the Governor’s Office, the waiver was not submitted for federal review until July 21, 2006. DPHHS began responding to federal inquiries in early October and received 65 questions from federal reviewers in early November 2006.

This component of the HIFA waiver would allow federal Medicaid funding to provide premium assistance for up to 260 persons with incomes under 150 percent of the federal poverty level who are participating in the Montana Comprehensive Health Association (MCHA - high risk state pool for persons who have been refused coverage in the private market).

The HRD funding request supports an FTE to administer the program. The funding for expanded premium assistance is requested in the State Auditor’s budget (\$2 million in health and Medicaid initiatives account over the biennium). HIFA waiver funding is estimated to provide services to 200 people currently participating in MCHA and an additional 60 persons from the waiting list. The total funding anticipated for the program is \$3.9 million over the five year waiver and the total services anticipated would be 1,800 months of insurance premium assistance per year.

The proposal is funded from the health and Medicaid initiatives account and federal Medicaid funds.

LFD ISSUE	The program should not include general fund as part of the state match. The legislature can replace the general fund with state special revenue if it wishes.
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Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2008				Fiscal 2009					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					45,895					45,942
Vacancy Savings					(1,836)					(1,838)
Total Statewide Present Law Adjustments					\$44,059					\$44,104
Grand Total All Present Law Adjustments					\$44,059					\$44,104