

Agency Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	2,788.09	38.94	(35.54)	2,791.49	41.44	(67.54)	2,761.99	2,761.99
Personal Services	103,015,824	14,479,987	710,811	118,206,622	14,874,122	959,944	118,849,890	237,056,512
Operating Expenses	74,254,507	3,074,922	2,819,683	80,149,112	3,669,576	2,953,471	80,877,554	161,026,666
Equipment	369,407	977,018	3,000	1,349,425	1,445,448	0	1,814,855	3,164,280
Capital Outlay	28,398	0	0	28,398	0	0	28,398	56,796
Local Assistance	0	0	0	0	0	0	0	0
Grants	38,063,456	11,947,565	857,371	50,868,392	11,946,772	58,291	50,068,519	100,936,911
Benefits & Claims	711,437,161	117,897,734	27,219,570	856,554,465	153,814,812	34,623,534	899,875,507	1,756,429,972
Transfers	0	0	0	0	0	0	0	0
Debt Service	467,562	36,837	47,471	551,870	36,837	(4,517)	499,882	1,051,752
<b>Total Costs</b>	<b>\$927,636,315</b>	<b>\$148,414,063</b>	<b>\$31,657,906</b>	<b>\$1,107,708,284</b>	<b>\$185,787,567</b>	<b>\$38,590,723</b>	<b>\$1,152,014,605</b>	<b>\$2,259,722,889</b>
General Fund	260,341,982	16,066,959	(11,495,543)	264,913,398	26,139,986	(14,425,167)	272,056,801	536,970,199
State/Other Special	23,836,105	7,261,813	8,801,687	39,899,605	8,473,088	12,591,036	44,900,229	84,799,834
Federal Special	643,458,228	125,085,291	34,351,762	802,895,281	151,174,493	40,424,854	835,057,575	1,637,952,856
NonExpendable Trust	0	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$927,636,315</b>	<b>\$148,414,063</b>	<b>\$31,657,906</b>	<b>\$1,107,708,284</b>	<b>\$185,787,567</b>	<b>\$38,590,723</b>	<b>\$1,152,014,605</b>	<b>\$2,259,722,889</b>

**Agency Description**

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

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

**Summary of Legislative Action**

<b>Department of Public Health and Human Services Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>○ The legislative appropriation is \$404 million total funds and \$16 million general fund higher than the fiscal 2002 base budget</li> <li>○ The legislative appropriation is \$64 million total funds and \$6 million general fund above the Executive Budget</li> <li>○ The legislative general fund appropriation is greater than the executive request primarily due to the impact of HB 121</li> <li>○ \$28.4 million of general fund Medicaid matching funds were contingent upon passage and approval of SB 407, which has been by the Governor</li> <li>○ \$13 million of state special revenue that continues current level services appropriated in SB 485 is not included in the main table in this report</li> <li>○ Federal funds increase \$351 million above the fiscal 2002 base budget and \$53 million above the Executive Budget</li> <li>○ Legislative initiatives include:                         <ul style="list-style-type: none"> <li>○ Change in the mission of the Eastern Montana Human Services Center (Eastmont)</li> <li>○ Approval of \$6.4 million in additional funds for tobacco prevention and control above the level recommended by the executive</li> </ul> </li> </ul>

- Refinancing initiatives that offset \$3 million in general fund
- Restructure of children’s mental health services
- Revenue bills that recoup additional federal reimbursement at state mental health and developmental disability institutions

The legislative appropriation for the Department of Public Health and Human Services (DPHHS) increases about \$404 million over the biennium when compared to the fiscal 2002 base budget expenditures. The greatest increase (87 percent) is in federal funds (\$351 million) and state special revenue (\$37 million). General fund increases \$16 million.

The legislature:

- Accepted \$39 million of general fund spending reductions proposed by the executive
- Added \$28.4 million general fund to maintain funding for Medicaid services at the current level - contingent upon passage and approval of SB 407
- Approved \$10 million of executive general fund reductions, but appropriated funds from a state special revenue account - the Prevention and Stabilization Fund - in SB 485, revising the use of tobacco settlement proceeds, to maintain programs and prevent reductions
- Added \$4.5 million general fund above the base budget for funding mental health Medicaid match, a 1 percent out-of-home therapeutic care provider rate increase in fiscal 2004, and 2.00 FTE for children's mental health services
- Rejected \$3 million of general fund spending reductions proposed by the executive

Agency Budget Comparison								
Budget Item	Base Budget Fiscal 2002	Executive Budget Fiscal 2004	Legislative Budget Fiscal 2004	Leg – Exec. Difference Fiscal 2004	Executive Budget Fiscal 2005	Legislative Budget Fiscal 2005	Leg – Exec. Difference Fiscal 2005	Biennium Difference Fiscal 04-05
FTE	2,788.09	2,774.33	2,791.49	17.16	2,776.83	2,761.99	(14.84)	
Personal Services	103,015,824	118,069,505	118,206,622	137,117	118,441,341	118,849,890	408,549	545,666
Operating Expenses	74,254,507	88,119,007	80,149,112	(7,969,895)	87,608,782	80,877,554	(6,731,228)	(14,701,123)
Equipment	369,407	1,392,217	1,349,425	(42,792)	1,823,855	1,814,855	(9,000)	(51,792)
Capital Outlay	28,398	28,398	28,398	0	28,398	28,398	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	38,063,456	47,763,865	50,868,392	3,104,527	46,963,288	50,068,519	3,105,231	6,209,758
Benefits & Claims	711,437,161	825,092,507	856,554,465	31,461,958	859,188,649	899,875,507	40,686,858	72,148,816
Transfers	0	0	0	0	0	0	0	0
Debt Service	467,562	557,137	551,870	(5,267)	505,149	499,882	(5,267)	(10,534)
<b>Total Costs</b>	<b>\$927,636,315</b>	<b>\$1,081,022,636</b>	<b>\$1,107,708,284</b>	<b>\$26,685,648</b>	<b>\$1,114,559,462</b>	<b>\$1,152,014,605</b>	<b>\$37,455,143</b>	<b>\$64,140,791</b>
General Fund	260,341,982	262,301,509	264,913,398	2,611,889	268,902,398	272,056,801	3,154,403	5,766,292
State/Other Special	23,836,105	38,738,195	39,899,605	1,161,410	40,334,583	44,900,229	4,565,646	5,727,056
Federal Special	643,458,228	779,982,932	802,895,281	22,912,349	805,322,481	835,057,575	29,735,094	52,647,443
NonExpendable Trust	0	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$927,636,315</b>	<b>\$1,081,022,636</b>	<b>\$1,107,708,284</b>	<b>\$26,685,648</b>	<b>\$1,114,559,462</b>	<b>\$1,152,014,605</b>	<b>\$37,455,143</b>	<b>\$64,140,791</b>

**Executive Budget Comparison**

The legislative appropriation includes about \$6 million general fund, \$6 million state special revenue and \$53 million federal funds more than the Executive Budget. General fund appropriations are net of increases and decreases compared to the executive budget. The most significant changes are:

- Addition of \$28.4 million in general fund contingent upon passage and approval of SB 407
- Funding switches that add \$6 million general fund and reduce federal funds by a like amount to implement HB121
- Addition of \$4 million general fund in children's mental health services to offset the loss of nursing home Medicaid IGT (intergovernmental transfer) state special revenue that was used as Medicaid match in the previous biennium
- Refinancing initiatives that result in general fund savings totaling \$14 million and increased federal funds totaling \$23 million

- General fund offsets for Medicaid match using \$3 million in county revenues from the nursing home and mental health Medicaid intergovernmental transfer programs
- Reduction of general fund support for personal services of \$2.5 million for the biennium

General fund increases included in the Executive Budget and approved by the legislature include:

- Caseload increases, \$25.1 million
- Medicaid mental health program changes, \$13.4 million
- Increased general fund requirements due to the unavailability of federal funds, \$4.6 million
- Annualization of direct care work and provider rate increases, \$2.0 million

The legislative state special revenue appropriation for DPHHS is about \$6 million greater over the biennium than the Executive Budget. The main difference is the increase in tobacco prevention and control of \$5.4 million. These increases are partially offset by executive proposals that the legislature rejected. The most significant executive proposal rejected by the legislature was offsetting \$2 million in general fund with alcohol tax revenues previously provided to local chemical dependency programs.

The legislative budget is \$53 million higher in federal funds than the Executive Budget due to:

- Refinancing efforts not included in the Executive Budget
  - a. \$12.3 million in Disability Services Division
  - b. \$5.1 million in Medicaid mental health access payments
- An additional increase in Food Stamp benefits due to revised caseload projections, \$15 million for the biennium
- Maintaining Medicaid services slated for reduction or elimination by the executive, \$10.5 million
- Inclusion of HB 13, (pay plan) increases, \$4.2 million
- Federal grant increases, \$3 million

**Funding**

The following table summarizes funding for the agency, by program and source, as adopted by the legislature. Funding for each program is discussed in detail in the individual program narratives that follow.

<b>Total Agency Funding 2005 Biennium Executive Budget</b>						
<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Grand Total</u>	<u>Total %</u>	
Human And Community Services Division	\$ 42,074,137	\$ 1,020,502	\$ 340,229,984	\$ 383,324,623	17.0%	
Child & Family Services Div	40,178,427	3,662,100	55,776,347	99,616,874	4.4%	
Director'S Office	2,100,523	451,720	12,665,320	15,217,563	0.7%	
Child Support Enforcement	552,851	5,049,510	11,157,764	16,760,125	0.7%	
Fiscal Services Division	4,790,945	591,979	4,914,070	10,296,994	0.5%	
Health Policy & Services Division	3,988,263	13,112,535	82,948,180	100,048,978	4.4%	
Quality Assurance Division	4,436,951	543,602	10,541,737	15,522,290	0.7%	
Operations & Technology Div	17,104,502	1,879,174	30,636,322	49,619,998	2.2%	
Disability Services Division	89,718,655	2,762,026	163,153,558	255,634,239	11.3%	
Senior & Long-Term Care	85,267,163	27,721,070	278,653,097	391,641,330	17.3%	
Addictive & Mental Disorders	78,987,626	9,549,480	73,879,435	162,416,541	7.2%	
Child & Adult Health Resources	167,770,156	18,456,136	573,397,042	759,623,334	33.6%	
Grand Total	<u>\$ 536,970,199</u>	<u>\$ 84,799,834</u>	<u>\$1,637,952,856</u>	<u>\$ 2,259,722,889</u>	<u>100.0%</u>	

*Comparison of 2005 and 2003 Biennium Funding by Program*

Department of Public Health and Human Services						
Summary of Funding by Division						
2003 and 2005 Biennia						
Division	2003 Biennium		2005 Biennium		Percent Inc Gen Fund	Percent Inc Total Funds
	General Fund	Total Funds	General Fund	Total Funds		
Human & Comm. Svcs	\$ 43,944,546	\$ 305,753,233	\$ 42,074,137	\$ 383,324,623	-4.3%	25.4%
Child & Family Svcs	43,162,557	92,904,209	40,178,427	99,616,874	-6.9%	7.2%
Director's Office	2,871,211	9,616,870	2,100,523	15,217,563	-26.8%	58.2%
Child Support Enforcement	448,878	19,070,282	552,851	16,760,125	23.2%	-12.1%
Fiscal Services	4,809,983	10,356,322	4,790,945	10,296,994	-0.4%	-0.6%
Health Policy & Svcs	6,404,726	73,843,083	3,988,263	100,048,978	-37.7%	35.5%
Quality Assurance	4,084,388	14,773,673	4,436,951	15,522,290	8.6%	5.1%
Operations & Technology	18,293,553	49,284,346	17,104,502	49,619,998	-6.5%	0.7%
Disability Services	86,332,606	225,344,316	89,718,655	255,634,239	3.9%	13.4%
Child and Adult Health Resources	62,440,736	261,589,614	167,770,156	759,623,334	168.7%	190.4%
Senion & Long Term Care	89,319,151	366,788,682	85,267,163	391,641,330	-4.5%	6.8%
Addictive & Mental Disord.	101,910,987	263,802,595	78,987,626	162,416,541	-22.5%	-38.4%
Total	\$ 464,023,322	\$ 1,693,127,225	\$ 536,970,199	\$ 2,259,722,889	15.7%	33.5%

The figure above summarizes general fund and total funds for each division for the 2005 biennium compared to the 2003 biennium. As illustrated in this figure general fund support increases for the Child Support Enforcement (23.2 percent), Quality Assurance (8.6 percent), Disability Services (3.9 percent) and Health Resources Division (168.7 percent). The increases in the Child Support Enforcement and Quality Assurance Divisions are small dollar amounts, \$103,873 and \$352,563, respectively, but result in fairly large percentage increases. The increase in the Disability Services Division is only about 4 percent but amounts to over \$3 million. The increase in the Disability Services Division approved by the legislature is about \$4 million less than was recommended by the Executive Budget.

The significant change in the Child and Adult Health Care Resources Division is due to Medicaid caseload increases and transfer of children's mental health services from the Addictive and Mental Disorders Division. About 42 percent of the increase for the Child and Adult Health Care Resources Division each year of the 2005 biennium and most of the decrease in the Addictive and Mental Disorders Division are due to this transfer. General fund support for all other divisions decreases, with the percentage decrease ranging from 4.3 percent to 37.7 percent. Health Policy and Services general fund reductions are due to elimination of the general fund support for MIAMI (Montana Initiative for the Abatement of Mortality in Infants), poison control system, and AIDS funding. SB 485 includes appropriations to continue those functions. Other general fund reductions in Health Policy and Services Division that were not offset include family planning, tumor registry, and operating costs.

Total funds supporting most divisions increase with three exceptions. Total funding for Child Support Enforcement, Fiscal Services, and Addictive and Mental Disorders Divisions decrease ranging between 0.6 percent and 38.4 percent. The largest increase in total funding occurs in the Health Resources Division, a 190.4 percent increase, and is discussed above. Funding for the Human and Community Services Division increases 25.4 percent, largely due to the annualization of the costs of food stamp benefits, which were previously a non-budgeted expenditure. Funding for the Disability Services Division increases 13.4 percent, which is largely due to refinancing efforts that increase the amount of federal funds supporting the division.

The Director's Office total funding increases due to appropriation increases for VISTA volunteers, while total general fund declines due to changes in cost allocation formulas. Health Policy and Services Division total funding increases due to significant growth in several federal grants, most notably bioterrorism, which increase \$20 million over the biennium.

### Agency Narrative

The legislature considered and took action to implement several significant legislative policy initiatives. The most significant of these initiatives are discussed below.

#### *Eastmont*

House Bill 727, which closes Eastern Montana Human Services Center (Eastmont), was passed by the legislature and signed by the Governor. This bill discontinues usage of the Eastmont facility in Glendive as an institution serving developmentally disabled adults by December 31, 2003. The facility is transferred to the Department of Corrections, which may utilize the facility for another purpose. The legislative budget, including the change in mission of the Eastmont facility, appropriates \$4 million less general fund for institutions serving developmentally disabled adults than was requested in the Executive Budget.

The plan adopted by the legislature transitions at least six residents of the Eastmont facility to a new group home to be built in the Glendive community. The remaining 23 residents would be transferred to the Montana Developmental Center or community settings. Additionally, four residents in community group homes would be moved to supported living situations and four residents at the Montana Developmental Center would be moved to community group homes.

To facilitate the action taken to change the mission of Eastmont, the legislature approved an increase of \$1.1 million general fund in fiscal 2004 and a decrease of \$1.2 million general fund in fiscal 2005. 2005 biennium funding for the Eastmont facility provided by the legislature includes \$580,000 general fund in fiscal 2004 as a restricted one-time-only appropriation for costs such as employee termination payout, an employee incentive bonus, job training, and other one-time costs that are anticipated due to the change in mission of the facility.

Several options for alternative usage of the Eastmont facility were suggested including usage of the facility by the Department of Corrections as a drug and alcohol treatment facility, and usage by DPHHS to provide additional veterans' services. No specific alternative use plan was adopted by the legislature or the community of Glendive during the legislative session.

During public testimony on this issue an attorney for the Montana Advocacy Program (MAP) representing plaintiffs in the Travis D lawsuit indicated that discontinuing the usage of the Eastmont facility as an institution for developmentally disabled individuals would be a step toward resolution of this lawsuit. However, this attorney also indicated that it was MAP's desire to have these residents served in community settings rather than some being transferred to the Montana Developmental Center in Boulder.

#### *Childcare*

The legislature sought to fund childcare in fiscal 2004 near the fiscal 2002 base level in an effort to decrease and/or limit the rate of increase in the TANF cash assistance caseload. The legislature adopted the following statement of legislative intent for inclusion in HB 2 narrative and the fiscal report.

"Due to the relationship of the availability of childcare subsidies and the ability of low-income families to seek and continue employment, thus avoiding the necessity of receiving cash assistance, the legislature in its prioritization of funding programs appropriated sufficient state special revenue to the Department of Public Health and Human Services to maintain expenditures for childcare at the fiscal year 2002 level. It is the legislature's intent and expectation that during the 2005 biennium funding for childcare subsidies be maintained at the fiscal 2002 level."

Subsequent to the adoption of this language, legislative actions changed the level of funding for childcare and inserted the following language in HB 2.

"Funding in item (childcare) may be used only to provide childcare subsidies. In an effort to stabilize, decrease, or decrease the rate of growth in the TANF cash assistance caseload, the legislature has appropriated \$25,600,000 for childcare services in fiscal year 2004. It is the legislature's intent that this funding is to be fully expended for childcare services in fiscal year 2004."

The \$25.6 million referred to in the language does not include the appropriation provided in SB 485, and is about \$0.5 million above the appropriation actually included in HB 2. This \$0.5 million difference between HB 2 and the language included in HB 2 is likely due to fluctuations in funding that continued to occur throughout the legislative session. The actual total funding available for childcare was estimated during the legislative session to be slightly less than the funding available in the fiscal 2002 base budget. However, the total appropriations for childcare in fiscal 2004 (shown in the figure to the right), including some federal funds that may not be realized, is slightly greater than the fiscal 2002 base budget level. Between fiscal 2004 and 2005 funding for childcare decreases about \$4 million or 15 percent.

Childcare Funding				
Funding Source	Actual 2002	Appropriated 2004	Appropriated 2005	Percent of Total
General Fund	\$ 2,528,756	\$ 3,051,862	\$ 1,951,862	10.4%
Percent of Total	9.6%	12.2%	8.5%	
Federal Funds:				
Discretionary Child Care	16,796,919	12,180,461	11,180,473	48.6%
Child Care Mandatory/MOE	2,090,175	3,086,400	3,086,400	12.8%
Child Care Admin	403,736	528,171	539,387	2.2%
Child Care Matching	4,406,365	6,196,101	6,196,101	25.8%
Other Federal	46,000	43,877	36,908	0.2%
Subtotal Federal Funds	23,743,195	22,035,010	21,039,269	
Percent of Total	90.4%	87.8%	91.5%	
Total Funding - HB 2	\$ 26,271,951	\$ 25,086,872	\$ 22,991,131	
State Spec Revenue, SB 485*	0	2,000,000	-	
Total Childcare Funding	\$ 26,271,951	\$ 27,086,872	\$ 22,991,131	100.0%
Percent change		3.1%	15.1%	
*Notes				
SB 485 provides a biennial appropriation of \$2 million.				

The legislature moved \$3 million from TANF cash assistance to childcare because it was concerned that decreases in childcare expenditures would result in increases in the TANF cash assistance caseload and prevent some families from leaving TANF cash assistance. At the current cash assistance caseload level of about 6,500 cases this equates to a reduction in the monthly cash payment of about \$20 per month. It should be noted that the department, through administrative rule, establishes the monthly cash payment at a percentage of the federal poverty level and will adjust this percentage to a level that results in an estimated \$3 million of decreased cash assistance expenditures rather than simply reducing the monthly cash assistance payment by \$20 per month.

The legislature also provided \$0.9 million general fund for childcare by approving an unspecified reduction of general fund support for the department of \$1 million for the biennium. This unspecified reduction is included in the Operations and Technology Division budget. Lastly, the legislature provided a \$2 million biennial appropriation of state special revenue in SB 485, revising the use of tobacco settlement proceeds, for childcare. Combined, these actions provide the department with \$2.9 million, which is sufficient state matching funds to draw all federal childcare matching funds that are expected to be available in the 2005 biennium.

*SB 485 - Prevention and Stabilization Fund*

The legislature approved SB 485, which established the Prevention and Stabilization Fund and made \$13 million in appropriations from the fund to support programs slated for reduction or elimination by the executive. Total revenues and appropriations from the fund are listed in the following figure.

The legislative appropriation from the Prevention and Stabilization Fund includes:

- o Funding for legislative priorities such as:
  - ?? Prescription drugs for the mentally ill, \$6.5 million
  - ?? Childcare, \$2.0 million that will be used to obtain federal matching funds (about \$0.6 million of this amount offsets general fund reductions in the Executive Budget)
- o Child Support Enforcement Division matching funds, \$1.3 million-

Offsetting some general fund reductions included in the Executive Budget, \$6 million including:

- MIAMI/perinatal programs, \$1.1 million
- Maintaining independent living and supported employment services, \$1 million
- Medicaid provider rate reductions, \$0.8 million
- Retaining the Medicaid hospice program and in-home therapy services, \$0.4 million
- Continuation of the poison control system, AIDS funding

There are two main sources of funding for the PSF:

- A diversion of \$12 million of tobacco settlement proceeds allocated to tobacco control and prevention by I-146
- New revenue of \$4.5 million from imposition of bed taxes on state institutions

The two bills creating bed taxes on state institution services are: 1) HB 722, which establishes a bed tax on the two state institutions for the developmentally disabled; and 2) HB 743, which includes the Montana Mental Health Nursing Care Center in the nursing home bed tax. Both of these bills raise revenue since most of the services provided by the institutions are Medicaid eligible, and federal Medicaid reimbursement pays about 72 percent of the cost of Medicaid services. Final revenue figures due to the passage of HB 722 were provided after the legislature adjourned. Revenue deposited to the PSF is about \$3 million higher than expected during the session.

SB 485 Appropriations/Revenue Support for Programs Included in 2002 Base Budget		
Appropriations/ Function/Revenue Source	Biennial Appropriation	Percent of Total
<b>Appropriations</b>		
Mental Health Services/Prescription Drugs*	\$ 6,500,000	49%
Child Care	2,000,000	15%
Child Support Enforcement Match	1,263,678	10%
Montana Initiative for the Abatement of of Mortality in Infants (MIAMI)*	1,100,000	8%
Mental Health Medicaid Rates*	800,000	6%
Extended Employment Services*	541,278	4%
Independent Living Services*	457,532	3%
Medicaid Hospice*	340,000	3%
AIDS Funding*	84,000	1%
Poison Control System*	77,908	1%
Medicaid In-home Therapy Services*	<u>68,000</u>	1%
<b>Total SB 485 Appropriations</b>	<b>\$ 13,232,396</b>	<b>100%</b>
<b>Prevention and Stabilization Fund Revenues</b>		
SB 485 - One Time Diversion Tobacco of Tobacco Settlement Revenues	\$ 11,888,960	73%
HB 722 - Bed Tax on Intermediate Care Facilities for the Mentally Retarded	4,226,128	26%
HB 743 - Nursing Care Center Bed Tax	266,136	2%
<b>Total Revenues</b>	<b><u>\$ 16,381,224</u></b>	<b><u>100%</u></b>
Revenue Over (Under) Appropriation	<u>\$ 3,148,828</u>	

\*General fund supporting these functions was recommended for elimination by the Governor.

*Child Support Enforcement Division Matching Funds*

The primary sources of state special revenue supporting the Child Support Enforcement Division (CSED) are retention of the state's share of collections for clients who receive or have received cash assistance from the state, and performance based incentives awarded by the federal government. Revenue from these two sources is not projected to be adequate during the 2005 biennium to sustain the operations of the division.

The legislature did not support increasing state special revenue for the division by authorizing the division to charge a fee for the collection of child support. In order to maintain CSED operations and funding at the current level, the legislature provided \$1.3 million for the biennium in SB 485, revising the use of tobacco settlement proceeds. However, action taken in HB 2 removed the appropriation of federal matching funds gained by use of these funds. Thus, the department may need to transfer federal funds from another program to provide CSED sufficient appropriations to access the federal matching obtained by expenditure of this \$1.3 million.

The legislature included funding for CSED as a legislative initiative, because maintenance of CSED operations at a level that meets federal requirements is necessary so that the state is eligible to receive the federal Temporary Assistance for Needy Families (TANF) grant. The federal TANF grant totals about \$44 million per year and supports public assistance programs.

*Refinancing*

In recent years refinancing, or changing the source of funding for services from general fund to non-general fund sources (often federal sources), has received a great deal of emphasis. The Developmental Disabilities Program (DDP) has engaged in refinancing efforts for at least the past two biennia. Within DDP, refinancing has generally taken the form of converting general fund expenditures to expenditures funded with federal Medicaid funds that require about a 30 percent

state match.

The legislature approved several refinancing efforts within the DDP resulting in a \$7.8 million biennial decrease in general fund required to maintain services at the current level. The legislature also provided the division an additional \$19.2 million of federal funds that are anticipated as a result of refinancing efforts. The refinancing efforts included in the 2005 biennium budget for the DDP include:

- Congregate Living, increasing federal Medicaid reimbursement by \$12.4 million and decreasing general fund requirements by \$3.6 million
- Community Supports and Supported Living, increasing federal Medicaid reimbursement by \$7.6 million and decreasing general fund requirements by \$2.8 million
- Children's Services, increasing federal Medicaid reimbursement by \$1 million in fiscal 2005 and decreasing general fund requirements by a like amount
- Refinancing services to offset a Medicaid provider rate reduction, increasing federal Medicaid reimbursement by \$1.0 million and decreasing general fund requirements by \$0.4 million

In general, the refinancing efforts above require the department to:

- Obtain federal approval to increase the number of Medicaid waiver slots so that services for all Medicaid eligible clients in congregate living settings may be billed to Medicaid rather than being billed to the general fund
- Obtaining federal approval to increase the number of Medicaid waiver slots and/or change the definitions employed within the waiver so that additional community services and children's services may be billed to Medicaid rather than being billed to the general fund

The financial impacts of refinancing that were included in the legislative budget were based upon estimates and there is a possibility that additional refinancing may be possible within the DDP. To accommodate this possibility the legislature appropriated \$8.1 million of federal funds to the Director's Office. Additionally, the legislature made changes in appropriations statutes in HB 744, which implements refinancing through DPHHS, that impact the use of general fund made available through refinancing efforts.

The legislature also reduced general fund support for the CFSD by \$6 million for the biennium and increased federal funding a like amount to reflect general fund savings anticipated due to refinancing efforts. The two primary refinancing efforts underway in the CFSD are increasing federal Title IV-E reimbursements for children in foster care and obtaining federal Medicaid reimbursement for case management services provided to Medicaid eligible children in the child welfare system. Although Medicaid reimbursement for case management services for children in the child welfare system has been approved and is in place in a number of other states, Montana's submission of a similar proposal to Medicaid was initially rejected. The department continues to work with federal Medicaid officials to obtain the necessary approvals to implement Medicaid reimbursement for these services.

### *Mental Health*

The legislature accepted revisions to the executive request for mental health funding. The legislature requested that the department prepare an alternative administrative structure and improvements for management of children's mental health services. The legislature also reviewed the revised executive request for adult mental health services. Legislative action with respect to each is summarized.

### Children's Mental Health Services

The legislature accepted the department recommendation to fund 2.00 more FTE and move administration of children's mental health services to a new division and combine it with primary care Medicaid services, CHIP (Children's Health Insurance Program), and children's special health services. DPHHS administrators pledged to keep staff positions filled in order to concentrate on stabilizing mental health services.

In addition, the legislature approved funding for a 1 percent provider rate increase for therapeutic group home providers, who had not received a rate increase since 1995. While these providers did receive a rate increase at the beginning of

fiscal 2003, it was more than offset by a 5 percent rate reduction imposed in January 2003 in order to reduce general fund costs and avoid a supplemental appropriation.

Adult Mental Health Services

The legislature accepted the revised executive proposal to contract with community mental health centers to administer adult mental health services. The legislature approved funding for 8.00 new FTE and restored funding for 22.93 FTE that had been eliminated in the Executive Budget as part of the proposal to reduce the Montana State Hospital population from 176 per day in the base budget year to 135 in the 2005 biennium. The Executive Budget was also revised to fund only one 15-bed behavioral health facility (BHIF) instead of three during the next biennium.

In addition, the adult mental health proposal was predicated on community mental health centers becoming the "gate keeper" for admissions to the state hospital. The revised executive proposal anticipates the DPHHS and community mental health centers would enter into contracts that allocate state hospital beds among mental health regions. The allocation would be based on historic usage and include financial incentives for community mental health centers to use the same number of or fewer beds than the historic levels. However, the specific mechanisms to allocate beds and structure financial incentives were not presented. Specific legislation requested by Health and Human Services Joint Appropriations Subcommittee to implement this proposal failed.

The legislature added about \$4.5 million general fund above the level requested in the Executive Budget for mental health services. Most of the increase (\$4 million) was to offset transfer of state special revenue from the county nursing home Medicaid IGT (intergovernmental transfer) program that had been used as mental health Medicaid match, to the Senior and Long Term Care Division. The other funds supported the 2.00 new FTE for children's mental health services and therapeutic group home rate increase.

*Tobacco Control and Prevention*

Montana voters have passed two initiatives that govern the allocation and use of tobacco settlement proceeds. In November 2000, voters passed an initiative to establish a constitutional trust fund that receives 40 percent of the tobacco settlement proceeds (Article XII Section 4). In November 2002, voters passed Initiative 146 (I-146) that amends statute to create two state special revenue accounts and to direct how the funds in each account must be spent.

Tobacco Settlement Revenue 2005 Biennium			
Estimated Total Revenue/ Allocation	Fiscal 2004	Fiscal 2005	Biennial Total
Total Settlement Revenue	\$ 28,223,000	\$ 28,930,000	\$ 57,153,000
40% to Trust	11,289,200	11,572,000	22,861,200
32 % to Prevention/ Control State Special Rev.	9,031,360	9,257,600	18,288,960
17% to CHIP and Comp. Association State Special Rev.	4,797,910	4,918,100	9,716,010
Balance to General Fund	3,104,530	3,182,300	6,286,830

The adjacent figure shows the total settlement revenue projected to be available as adopted by the legislature. The 40 percent allocation to the trust shows the total amount deposited to the corpus of the trust, and the amounts deposited to the state special revenue accounts created by I-146.

Two-fifths of the tobacco settlement proceeds and one-tenth of the interest and income from the trust must be deposited to the trust fund, leaving 90 percent of the interest income available for appropriation. The principal and one-tenth of the interest and income deposited in the trust must remain inviolate unless appropriated by a two-thirds majority vote of the members of each house of the legislature.

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

I-146 created two state special revenue accounts. One account receives 32 percent (about \$9 million annually) of the tobacco settlement proceeds and can be used for a comprehensive tobacco prevention program and smoking cessation programs. The second account receives 17 percent (about \$5 million annually) and can be used to fund CHIP and the

Comprehensive Health Association (CHA or the Association). The Association is a nonprofit legal entity of all insurers, health maintenance organizations, or health service organizations licensed or authorized to do business in Montana. The Association provides health insurance to persons who have been refused coverage by two insurance companies or has a restrictive rider or exclusion for a preexisting condition, which would substantially reduce coverage from that received by a person considered a standard risk. Unlike the constitutional trust income, tobacco settlement proceeds allocated by I-146 can be used to supplant current general fund spending.

*Shortfall in Cash to Support Appropriations*

The following figure shows the amount of constitutional tobacco settlement trust income appropriated by the legislature compared to estimated revenues. The appropriation is about \$400,000 higher than anticipated revenues.

*Use of Tobacco Settlement Revenue Allocated by I-146*

As noted earlier, I-146 created two state special revenue accounts that receive allocations from tobacco settlement revenue and funds from those accounts can be used to offset current general fund spending. However, funds must be spent for the intended uses, which are listed in statute:

17-6-606. Tobacco settlement accounts - purpose - uses. (1) The purpose of this section is to dedicate a portion of the tobacco settlement proceeds to fund a statewide comprehensive tobacco disease prevention program designed to:

- (a) discourage children from starting use of tobacco;
- (b) assist adults in quitting use of tobacco;
- (c) provide funds for the children's health insurance program; and
- (d) provide funds for the comprehensive health associate programs

Constitutional Trust Fund - Income and Appropriations 2005 Biennium		
Income/Expenditures	Fiscal 2004	Fiscal 2005
Income*	\$ 2,217,600	\$ 2,927,700
2005 Biennium Appropriation		
Primary Care Services	1,654,796	2,415,645
Senior and Long-Term Care	703,779	703,779
Mental Health Services	27,659	27,659
Total Appropriation	2,386,234	3,147,083
Appropriation (Over) Under Revenue	\$ (168,634)	\$ (219,383)
Biennial Shortfall		\$ (388,017)

\*Income is the amount adopted in revenue projections accepted by the Revenue and Transportation Interim Committee.

The legislature appropriated \$3.2 million each year for tobacco prevention and control programs, bringing the total annual appropriation to \$4 million when federal grant funds are included. The legislative appropriation is \$2.7 million greater each year than the executive recommendation.

SB 485 changed the allocation of tobacco settlement funds in two ways. First, funds allocated to CHIP and the Association may be used as matching funds for the Medicaid program, which is a permanent change. Second, for two years the balance of funds allocated to tobacco prevention, control and cessation will be deposited to the proposed Prevention and Stabilization Fund (\$12 million in the 2005 biennium).

*Medicaid Services Appropriations*

Medicaid is a significant component of the DPHHS appropriation, accounting for 54 percent of the total department 2005 biennium appropriation and 51 percent of the general fund appropriation. Medicaid services alone account for 19 percent of the total appropriations made in HB 2, including 12 percent of the general fund appropriated in HB 2.

The first of the following two figures shows the Medicaid services appropriations for each fiscal year of the 2005 biennium compared to the fiscal 2002 base budget expenditures. The 2005 biennium appropriation is \$158 million higher than base budget expenditures times two, and about \$33 million general fund higher. The general fund appropriation includes \$28.4 million that is contingent upon passage and approval of SB 407. The increase in general fund is partially offset due to appropriating the following amounts of state special revenue to offset general fund expenditures:

- o \$2.6 million of tobacco settlement revenue
- o \$2 million of nursing home intergovernmental transfer revenue
- o \$1.2 million of county funds for community mental health centers
- o \$0.2 million of lien and estate revenue

Another reason that total Medicaid expenditures grow in a higher proportion than general fund is the appropriation of \$26 million in federal Medicaid revenues to offset expenditures made by schools for Medicaid eligible children and a federally

allowable portion of school administrative costs. The schools provide the required state match and DPHHS passes through the federal reimbursement to schools.

Finally, there is an additional \$17 million total funds (\$4.5 million state special revenue) budgeted for nursing home Medicaid intergovernmental transfer payments. Counties provide the non-federal share of Medicaid matching funds to draw down the maximum allowable Medicaid payment. Since Montana Medicaid rates for nursing homes are lower than the upper payment limit, DPHHS can use county funds to leverage additional, one-time Medicaid payments related to the Medicaid services provided by county operated nursing homes. There is also an intergovernmental transfer program for county administered hospitals, but the payments are much lower and do not grow over the base budget expenditure amounts.

*Federal Change providing Fiscal Relief to States – Change in FMAP*

Late in May 2003, federal legislation providing state fiscal relief became law. This federal legislation included a reduction in the state share of Medicaid costs (Federal Medical Assistance Participation or FMAP). The decrease in the FMAP will be effective from April 2003 through June 2004.

For Montana the FMAP increases from about 73 percent to almost 76 percent, a change of about slightly more than 3 percentage points. The increase in the federal share of costs decreases the state share of costs. The fiscal 2004 budget approved by the legislature was based upon a state Medicaid matching rate of about 27 percent. Under the federal legislation, this rate will decrease to about 24 percent. Initial estimates are that this change will result in general fund savings of about \$15 million for fiscal 2004. The FMAP for fiscal 2005 remains as budgeted at this time. Matching rates for other federal programs, such as Title IV-E foster care, childcare, and children's health insurance, which utilize the FMAP rate, do not change.

In addition to a saving of general fund this change will also result in savings of state special revenue that is used as Medicaid match and impact the funds available through items such as intergovernmental transfers.

Because the legislature appropriated matching funds at a level that is higher than will be required the executive could: 1) expand services, 2) reinstate services eliminated or reduced during the 2003 biennium, 3) retain services at the current level and divert the savings to other uses; and/or 4) revert funds to the general fund.

2005 Biennium Medicaid Services Appropriations*							
Program	Fiscal 2002 Base		Fiscal 2004		Fiscal 2005		Percent of Total
	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds	
Child and Adult Health Care Resources	\$ 67,584,455	\$ 296,870,286	\$ 77,579,206	\$ 336,911,972	\$ 85,140,175	\$ 375,500,889	59%
Senior Long-Term Care Division	\$ 38,517,451	155,772,394	37,549,382	172,284,470	38,886,677	177,207,600	28%
Disability Services Division	11,740,639	43,285,156	11,831,497	47,175,489	11,898,976	46,723,150	7%
Addictive and Mental Disorders	4,113,086	22,503,156	5,943,591	30,400,638	6,637,034	33,530,386	5%
<b>Total</b>	<b>\$ 121,955,631</b>	<b>\$ 518,430,992</b>	<b>\$ 132,903,677</b>	<b>\$ 586,772,569</b>	<b>\$ 142,562,862</b>	<b>\$ 632,962,025</b>	<b>100%</b>
2002 General Fund Base			121,955,631		121,955,631		
Compounded Annual Growth Rate			4.4%		5.3%		
2005 Biennium Increase Over Base Budget Expenditures					\$ 31,555,276	\$ 182,872,611	

\*Medicaid intergovernmental transfer (IGT) programs are included in this table. The legislature appropriated IGT payments as one time appropriations in the event that the federal regulations regarding such transfers change. Counties provide the non federal match required to draw down the maximum allowable Medicaid payments for county operated hospitals and nursing homes.

Intergovernmental Transfers, Access Payment, and Bed Utilization Fees											
IGT/Access Payment/Bed Fees	Fiscal 2002 Base			Fiscal 2004			Fiscal 2005		Percent of Total		
	State	Special	Total Funds	Gen. Fund	State	Special	Total Funds	Gen. Fund		State	Special
House Bill 2 Appropriations											
Intergovernmental Transfers											
Nursing Homes	\$ 3,697,565	\$ 13,618,158	\$ -	\$ 6,077,957	\$ 22,395,413	\$ -	\$ 7,089,712	\$ 25,921,920	76%		
Hospital/County Health IGT*	716,417	2,636,794	-	841,417	2,886,794	-	841,417	2,886,794	8%		
Mental Health	-	-	-	436,612	1,608,980	-	445,612	1,608,980	5%		
Subtotal Intergovernmental Transfers	<u>\$ 4,413,982</u>	<u>\$ 16,254,952</u>	<u>\$ -</u>	<u>\$ 7,355,986</u>	<u>\$ 26,891,187</u>	<u>\$ -</u>	<u>\$ 8,376,741</u>	<u>\$ 30,417,694</u>	89%		
Mental Health Access Payment	\$ -	\$ -	\$ 1,000,000	\$ -	\$ 3,687,316	\$ 1,000,000	\$ -	\$ 3,676,471	11%		
Total One-Time HB 2 Appropriations	\$ 4,413,982	\$ 16,254,952	\$ 1,000,000	\$ 7,355,986	\$ 30,578,503	\$ 1,000,000	\$ 8,376,741	\$ 34,094,165	100%		
Percent Increase From Base					88%			110%			
House Bill 481 and 705 Appropriations											
HB 481 - Hospital Bed Fee	\$ -	\$ -	\$ -	\$ 7,225,925	\$ 26,644,266	\$ -	\$ 8,732,387	\$ 31,673,512	58%		
HB 705 - Nursing Home Bed Fee	-	-	-	3,499,484	8,671,517	-	9,404,218	22,991,826	42%		
Subtotal Utilization Bed Fees	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,725,409</u>	<u>\$ 35,315,783</u>	<u>\$ -</u>	<u>\$ 18,136,605</u>	<u>\$ 54,665,338</u>	100%		
Percent Increase From Base					117%			236%			
TOTAL ONE TIME PAYMENTS	\$ 4,413,982	\$ 16,254,952	\$ 1,000,000	\$ 18,081,395	\$ 65,894,286	\$ 1,000,000	\$ 26,513,346	\$ 88,759,503			
Percent Increase from Base					305%			446%			

*Legislative Initiative – Medicaid Prescription Drug Expansion*

The legislature initiated and approved an expansion of Medicaid prescription drug coverage in SB 473. The program requires two waivers of federal Medicaid criteria and will provide price discounts on prescription drugs for eligible persons. The state matching funds to pay for the expansion are a \$25 annual application fee and a portion of the prescription drug rebates received from manufacturers participating in the Medicaid prescription drug expansion program. The program is to be implemented July 1, 2004.

Persons who meet the following criteria are eligible to participate:

Incomes up to 200 percent of the federal poverty level

- 62 years of age or older
- 18 years of age or older and determined to be disabled by the federal Social Security Administration
- Eligible for the Mental Health Services Plan administered by DPHHS pursuant to 53-21-702(2).

The program will allow eligible persons to buy prescription drugs at a price discounted from 6 to 25 percent below the wholesale average price of the drug. DPHHS will reimburse pharmacies the amount of the discount from the appropriation made for the program.

The legislature added appropriation authority totaling \$8 million over the biennium to implement the program. If program costs are expected to exceed the legislative authorization for the program, the department is required to adjust discounted prices, the application fee, or eligibility standards to maintain the program within the available funding.

DPHHS estimated that there would be 42,390 eligible persons apply for and be accepted in the program. DPHHS is required to perform outreach to inform persons about the program. DPHHS may get a loan from the Board of Investments to fund start up costs. While the fiscal note for SB 473 showed that DPHHS would need funding for 5.00 new FTE, the personal services funding was not requested in the amendment drafted for HB 2 by the executive.

*One-Time Appropriations to Raise Medicaid Provider Rates to Maximum Allowable*

Federal regulations specify that states may establish Medicaid rates at no more than would be allowable under Medicare cost recovery principles. Federal regulations also specify how much of the non federal Medicaid match may be provided by local governments or provider taxes and regulations specify how provider taxes must be levied.

The legislature approved several one-time appropriations to raise rates for hospital, nursing home, and some mental health services through intergovernmental transfers and bed utilization fees. In the case of hospitals and nursing homes, the legislature attempted to create funding mechanisms within federal guidelines that would allow Medicaid rates to be at or near maximum reimbursement rates. The mental health access fee funded in HB 2 would also raise reimbursement rates to near maximum for services provided by community mental health centers. The figure (on the bottom of the previous page) showing total one-time Medicaid rate appropriations shows the amount of 2005 biennium appropriations for one-time payments compared to the fiscal 2002 base budget level approved in the 2003 biennium general appropriations act.

Fiscal 2005 appropriations for one-time payments to certain Medicaid providers are more than 400 percent above the fiscal 2002 base budget expenditures. The majority of increase is due to bed utilization fees imposed on nursing homes and hospitals, which will expire at the end of the 2005 biennium. Intergovernmental transfer appropriations, where counties provide the non federal match, more than doubles over the same time period.

The mental health access payment, proposed by the executive, must be approved by the federal Department of Health and Human Services.

*Medicaid Eligibility Changes*

The legislature accepted the executive recommendation that implemented changes in Medicaid eligibility and reductions totaling \$5.8 million (\$1.6 million general fund). These changes affect Medicaid appropriations in three divisions, with

the foremost eligibility impacts listed first:

- Senior and Long Term Care (nursing home and community services for elderly and physically disabled)
- Child and Adult Health Care Resources (primary care -hospital, doctor, and drug services)
- Addictive and Mental Disorders (mental health and chemical dependency services)
- Disability Services (developmental disability services)

Each of the specific changes is discussed and the DPHHS estimate of the number of persons impacted by each change is listed. DPHHS estimates that together these four changes would impact 511 persons each month. In about half the cases, persons would still be eligible for Medicaid, but would use more of their own resources toward payment of medical bills. In some instances, particularly for persons in nursing homes, the changes would make them ineligible until they sold homes and used the proceeds to pay for care.

Division/Service	Biennial Savings General Fund	Total	Percent of Total
Senior and Long Term Care			
Nursing Home	\$ (1,381,286)	\$ (5,045,796)	87%
Child and Adult Health			
Care Resources	(184,202)	(673,667)	12%
Addictive and Mental Disorders			
Mental Health Services	(31,092)	(113,699)	2%
Total	\$ (1,596,580)	\$ (5,833,162)	100%

*Count Non-home Real Property Listed for Sale*

Non-home real property listed for sale would be countable (equity) against the Medicaid resource limit rather than excluded from the resource test. This change will cause some households (estimated at 87 per month) with real property to exceed the resource limit for Medicaid coverage, delaying eligibility.

*Contract for Deed Change*

The value of a contract for deed in the resource determinations for SSI-related Medicaid would be excluded, resulting in the individual receiving Medicaid right away, but leaving them with more income on a consistent basis to offset their own medical expenses and relieve some of the costs to Medicaid. Preserving the value of the contract for deed would also make it available for estate recovery purposes. This change would impact an estimated 120 applicants per month.

*Life Estate Change*

The value of life estates would be excluded when the life estate is being used to produce income and meets the requirement to do so. The penalty for not using the property to produce income would be denial of benefits for failure to access other benefits or an asset transfer penalty for failure to access a stream of income. This change would provide more income to the applicant/recipient on a consistent basis to offset medical expenses and relieve some of the costs to Medicaid. This change would impact an estimated 60 recipients per month.

*Limit Exclusion of Home Property Under "Intent to Return" Policy*

Currently, the value of the owned home is excluded indefinitely with an "intent to return" statement. This change would define "home" as the person's principal place of residence and specify that the individual must have physically resided at that residence within the past six months. (Other states already have this definition in place.) After six months have elapsed, the house would be considered a countable asset and either cause closure of Medicaid or require the house to be listed for sale. This change would impact an estimated 244 individuals living in nursing homes or personal care homes with no likelihood of returning home.

2003 Biennium Compared to 2005 Biennium Department of Public Health and Human Services				
Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	2,810.58	2,761.99	(48.59)	
Personal Services	\$ 212,956,066	\$ 237,056,512	\$ 24,100,446	8.4%
Operating Expenses	165,233,388	161,026,666	(4,206,722)	-1.5%
Equipment	1,297,789	3,164,280	1,866,491	0.7%
Capital Outlay	34,754	56,796	22,042	0.0%
Local Assistance	6,249	0	(6,249)	0.0%
Grants	80,404,782	100,936,911	20,532,129	7.2%
Benefits & Claims	1,512,292,656	1,756,429,972	244,137,316	85.3%
Transfers	29,221	0	(29,221)	0.0%
Debt Service	<u>1,102,298</u>	<u>1,051,752</u>	<u>(50,546)</u>	<u>0.0%</u>
Total Costs	<u>\$ 1,973,357,203</u>	<u>\$ 2,259,722,889</u>	<u>\$ 286,365,686</u>	<u>100.0%</u>
General Fund	\$ 525,526,015	\$ 536,970,199	\$ 11,444,184	4.0%
State Special	58,841,126	84,799,834	25,958,708	9.1%
Federal Funds	<u>1,388,990,062</u>	<u>1,637,952,856</u>	<u>248,962,794</u>	<u>86.9%</u>
Total Funds	<u>\$ 1,973,357,203</u>	<u>\$ 2,259,722,889</u>	<u>\$ 286,365,686</u>	<u>100.0%</u>
Percent Increase			14.5%	

### Biennial Comparison

The 2005 biennium general fund support for the department increases \$11 million or about 2 percent when compared to the 2003 biennium. However, the total 2005 biennium appropriation is \$286 million higher than the 2003 biennium.

State special revenue support for the department increases \$26 million. The most significant changes in state special revenue are:

- Tobacco settlement proceeds used for CHIP and Medicaid match (\$8 million)
- Increases in county funds for intergovernmental transfer programs for nursing homes (\$7 million)
- Tobacco control and prevention program expansion from tobacco settlement proceeds (\$6 million)
- SB 473 – creation of an expanded Medicaid prescription drug program (\$2 million)

Federal funds increase \$249 million between the two biennia. The most significant changes in federal funds are:

- Medicaid caseload growth adds \$85 million
- A change in the distribution of food stamp benefits increases federal funding by \$85 million because these benefits were included in the general appropriations for the first time in the 2003 biennium and a full year of expenditures were not included in the fiscal 2002 base budget. Additionally, caseloads have increased more rapidly than originally anticipated in the past six months
- Refinancing efforts increase federal funding by \$23 million for DPHHS and by \$27 million for schools
- Funding for bioterrorism and other federal categorical grants adds about \$20 million

### Other Issues

#### *Federal Proposal to Block Grant Medicaid Funds*

The federal Department of Health and Human Services announced after the start of the legislative session that it would propose two alternatives for Medicaid funding that states could choose between - a block grant with a state maintenance of effort or continued participation in the traditional Medicaid program.

This choice will have significant fiscal impacts regardless of the option chosen and because the choice may occur while the legislature is not in session it is discussed here. Medicaid services comprise over half of the DPHHS appropriation.

The legislature directed the executive to provide an analysis of the block grant for review by the Legislative Finance Committee (LFC). The department was directed to use the following criteria in its evaluation of the proposed Medicaid block grant compared to other Medicaid funding alternatives from which the state may choose:

- Total cost to the state over the life of the block grant and during each year of the block grant compared to the state cost of maintaining Medicaid eligibility and service levels funded by the legislature during the current biennium
- Types of flexibility
- Advantages and disadvantages
- Policy choices that may occur

The LFC must review and analyze the department's findings and make a recommendation to the governor and to the department with regard to acceptance or rejection of the block grant if the state is required to make a decision as to whether to accept or reject the block grant prior the next regular convening of the legislature. The governor must consider the recommendation of the legislative finance committee and provide a written rationale to the committee if the recommendation of the committee is not followed.

HB 744 also provides that if federal laws allow the state to delay the decision as to whether to accept the Medicaid block grant until the next regular session of the legislature, the governor may not opt to accept the Medicaid block grant without legislative consent

#### *TANF Cash Assistance Payment*

Because the state now receives a fixed amount of federal assistance and does not have any federal funds to carryover from prior years, expenditures must be maintained within the funding available in the annual grant award. Cash assistance costs currently account for about 75 percent of the federal grant and almost 60 percent of the combined funding available in the federal grant and TANF maintenance of effort. The department indicated that the cash assistance caseload is reaching a level that cannot be sustained on the funding available and that a reduction in the monthly cash assistance payment (currently established at 40.5 percent of the federal poverty level) may be necessary to maintain expenditures within the available funding. The legislature adopted the following statement of legislative intent for inclusion in HB 2 narrative and this report.

"When TANF benefit expenditure projections exceed a sustainable level for the 12-month period, benefits may be reduced to a level that would maintain solvency of the block grant. The trigger and process for benefit reduction is as follows:

1. An average monthly TANF expenditure amount will be calculated based on three consecutive months beginning July 1, 2003 of benefit expenditures and benefits will not be reduced prior to December 2003. This average will be projected over a 12-month period and if the projection exceeds the budgeted amount available for benefits, then;
2. The department will certify to the Office of Budget and Program Planning that benefit expenditures are projected to exceed the available grant.
3. The new benefit level will be set by using an average of actual benefit expenditures over a period of time that captures seasonal variations in the amount of benefits needed.
4. If during this biennium benefit levels are reduced under the circumstances above, this process and benefit levels will be revisited during the next legislative session."

Subsequent to this action the department notified the legislature that it was likely that the monthly cash assistance benefit level would need to be reduced prior to December 2003. Because statements included in the narrative accompanying HB 2 or this report are not legally binding, and because the legislature has provided the department statutory authority to establish the cash assistance benefit level, the department may legally reduce the monthly cash assistance benefit level prior to December.

#### *Reductions Made by DPHHS During the 2003 Biennium to Curtail General Fund Spending*

Prior to legislative action on the 2005 biennium Executive Budget, DPHHS had implemented over \$69 million of spending reductions, including \$30 million in general fund. The following figure shows the spending reductions by division.

Department of Public Health and Human Services											
Summary of 2005 Biennium Executive Budget Reductions and 2003 Biennium Reductions - Including Estimated Total Funds Impact											
August 2002 Special Session Legislative Action 17-7-140 MCA and Supplemental Mitigation											
Action	Human & Community Services		Child and Family Svcs		Child Support Enforcement		Health Policy & Services		Addictive & Mental Disorders		
	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	
August 2002, Special Session	106,251	727,490	106,731	175,897	-	-	22,720	(257,662)	1,275,196	61,890	
17-7-140, MCA	1,275,138	2,088,821	996,441	1,578,541	22,500	66,176	1,553,097	5,584,436	2,834,011	6,677,961	
Supplemental Mitigation	-	-	-	-	-	-	9,091,497	28,038,472	4,659,894	10,186,436	
<b>Total Change by Division</b>	<b>\$ 1,381,389</b>	<b>\$ 2,816,311</b>	<b>\$ 1,103,172</b>	<b>\$ 1,754,438</b>	<b>\$ 22,500</b>	<b>\$ 66,176</b>	<b>\$ 10,667,314</b>	<b>\$ 33,365,246</b>	<b>\$ 8,769,101</b>	<b>\$ 16,926,287</b>	
Percent of Total	4.7%	4.1%	3.8%	2.5%	0.1%	0.1%	36.6%	48.0%	30.1%	24.4%	

Action	Director's Office		Quality Assurance		Disability Services*		Senior & Long Term Care		Operations and Technology		Total	
	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total
August 2002, Special Session	8,183	23,071	22,694	64,705	2,179,686	354,348	(69,106)	(23,892)	2,101,416	7,019,871	5,753,771	8,145,718
17-7-140, MCA	128,459	134,359	156,557	208,960	881,392	1,610,597	1,240,325	4,060,074	513,839	1,097,720	9,601,759	23,107,645
Supplemental Mitigation	-	-	-	-	-	-	-	-	-	-	13,751,391	38,224,908
<b>Total Change by Division</b>	<b>\$ 136,642</b>	<b>\$ 157,430</b>	<b>\$ 179,251</b>	<b>\$ 273,665</b>	<b>\$ 3,061,078</b>	<b>\$ 1,964,945</b>	<b>\$ 1,171,219</b>	<b>\$ 4,036,182</b>	<b>\$ 2,615,255</b>	<b>\$ 8,117,591</b>	<b>\$29,106,921</b>	<b>\$69,478,271</b>
Percent of Total	0.5%	0.2%	0.6%	0.4%	10.5%	2.8%	4.0%	5.8%	9.0%	11.7%	100.0%	100.0%
<b>Total Department Change</b>	<b>\$29,106,921</b>	<b>\$69,478,271</b>										

Notes:  
Almost \$2 million of the August 2002, Special Session general fund decrease for Disability Services Division was due to a funding switch. General fund was reduced and state special revenue increased.

The most significant service and benefit reductions occurred as part of the 2003 biennium cutbacks. In comparison, legislative action preserved a majority of programs slated for reduction or elimination in the Executive Budget during the 2005 biennium. For instance, DPHHS made the following permanent changes to reduce general fund spending during the 2003 biennium:

- o Discontinuation of payment for room and board in mental health therapeutic out of home placements for children not in the custody of the state
- o Elimination of Medicaid funding for adult outpatient mental health services if the adult is not diagnosed with a serious and disabling mental illness and comparable services for children who are not seriously emotionally disturbed
- o Elimination of expanded mental health services for seriously emotionally disturbed children eligible for CHIP
- o Limitation in the number of Medicaid funded outpatient mental health visits for an adult
- o Limitation of provider participation in MHSP and reduction in the number of persons eligible for MHSP services
- o Limitation of amount of prescription drug coverage provided by MHSP to \$250 per month

DPHHS also imposed a series of provider rate reductions during the 2003 biennium for most providers except for nursing homes and providers of developmental disability services. Most of the rate reductions are not ongoing in the 2005 biennium, and the legislature offset most or all of the 2005 biennium reductions proposed by the executive.

*Federal Poverty Level*

The federal poverty level is updated annually in late February or early March. Various family sizes and percents of the 2003 federal poverty level are shown in the adjacent table.

Throughout DPHHS program references are made to program financial eligibility that is based upon the federal poverty level index. For example, CHIP and MHSP financial eligibility is currently 150 percent of the federal poverty. Financial eligibility for some Medicaid programs for low-income children and pregnant women is established at 100 percent and 133 percent of the federal poverty level. Chemical dependency services are provided to individuals with incomes below 200 percent of the federal poverty level.

2003 Federal Poverty Index						
Levels of Poverty by Family Size						
Size of Family Unit	Percent of Federal Poverty Level					
	100%	133%	150%	175%	200%	
1	\$8,980	\$ 11,943	\$ 13,470	\$ 15,715	\$ 17,960	
2	12,120	16,120	18,180	21,210	24,240	
3	15,260	20,296	22,890	26,705	30,520	
4	18,400	24,472	27,600	32,200	36,800	
5	21,540	28,648	32,310	37,695	43,080	
6	24,680	32,824	37,020	43,190	49,360	
7	27,820	37,001	41,730	48,685	55,640	
8	30,960	41,177	46,440	54,180	61,920	
Each Additional Person	3,140	4,176	4,710	5,495	6,280	

**Language**

The legislature adopted the following language in HB 2.

"If budget reductions are enacted by emergency rule in the 2005 biennium, the legislature urges the department to provide a 30 day public notice and to conduct a public hearing prior to adoption of the emergency rules."

"Item [Human and Community Services Division] includes \$31,769,235 of federal funds in fiscal year 2004 and \$31,769,235 of federal funds in fiscal year 2005 to fund cash assistance benefits provided under Montana's Temporary Assistance for Needy Families (TANF) grant. If caseloads decrease below this level of funding, resulting in a surplus of federal TANF funds, the following priorities may be funded:

- (1) Childcare subsidies;
  - (2) A "rainy day" fund of up to \$4 million;
  - (3) Training and education programs to achieve employment in higher wage jobs, including programs offered by tribal colleges;
- or
- (4) Supportive services needed for employment of TANF recipients."

"Item [Human and Community Services Division] includes a reduction in general fund money of \$1,245,030 in fiscal year 2004 and \$1,245,030 in fiscal year 2005 for the statewide FTE reduction. The agency may allocate this reduction in funding among programs when developing the 2005 biennium operating plans."

"Items [Prevention and Stabilization Fund] are contingent upon passage and approval of a bill or bills that establish a state special revenue account for prevention and stabilization of department programs that receives at least \$13.7 million of estimated revenue in fiscal year 2004 and \$16.5 million of estimated revenue in fiscal 2005 from cigarette and chew tobacco taxes, reallocation of tobacco settlement proceeds allocated by 17-6-606 (2), and other sources."

"Funding in item [childcare] may be used only to provide childcare subsidies. In an effort to stabilize, decrease, or decrease the rate of growth in the TANF cash assistance caseload, the legislature has appropriated \$25,600,000 for childcare services in fiscal year 2004. It is the legislature's intent that this funding is to be fully expended for childcare services in fiscal year 2004."

"Funds in item [childcare] may be used only to provide childcare subsidies to low-income families, except a portion of this funding may be used to support childcare quality activities at the minimum level required to maintain Montana's eligibility for the federal childcare development fund grant."

"Item [Child and Family Services Division] includes \$77,641 in general fund money in fiscal year 2004 and \$77,641 in general fund money in fiscal year 2005 that may be used only to support the provision of Domestic Violence Prevention Services."

"If Senate Bill No. 473 is not passed and approved, the funding in: [Director's Office] is decreased by \$6,250 in federal funds in fiscal year 2004; item [Fiscal Services Division] is decreased by \$7,084 in state special revenue in fiscal year 2004 and by \$7,084 in federal funds in fiscal year 2004 and by \$28,333 in state special revenue in fiscal year 2005 and by \$28,333 in federal funds in fiscal year 2005; and item 10] is decreased by \$102,700 in state special revenue in fiscal year 204 and by \$278,984 in federal funds in fiscal year 2004 and by \$2,069,728 in state special revenue in fiscal year 2005 and by \$5,201,130 in federal funds in fiscal year 2005."

"Personal services funding for 5.00 FTE in item [Refinancing Authority] is considered a one-time appropriation."

"If House Bill No. 727 is not passed and approved, funding in item [Disability Services Division] is increased by \$1,915,198 of general fund money in fiscal year 2004 and by \$1,915,952 of general fund money in fiscal year 2005, which includes funding for an additional 60.27 FTE in fiscal year 2004 and an additional 92.27 FTE in fiscal year 2005. If House Bill No. 727 is not passed and approved, general fund money in item [Senior and Long-Term Care Division] is reduced by \$7,452 in fiscal year 2004 and by \$7,488 in fiscal year 2005."

"Funding in item [Disability Services Division] is decreased by \$2,380,962 in federal funds in fiscal year 2004 and by \$1,934,019 in federal funds in fiscal year 2005 if House Bill No. 452 is not passed and approved."

"Funding in item [Donated Dental] may be used only to provide donated dental services to individuals with disabilities."

"Appropriations in items [Medicaid Matching Funds] are contingent upon approval and passage of Senate Bill No. 407."

"Item [tobacco control and prevention] includes \$80,000 each year for each federally recognized tribe within Montana in accordance with 17-6-602(3)(b)(ii) that submits and administers a tobacco prevention and control program that meets the conditions required of all community-based contractors. "

"If tobacco prevention and control funds granted to a federally recognized tribe within Montana are not fully expended by the individual grantee within the contract period, these funds may be reallocated for other tobacco use prevention purposes. "

"The department shall distribute funds in [Therapeutic Group Home Rate Increase] in a way that provides reasonable assurance that the funds are used solely for Therapeutic Group Homes. Rate increases may vary among type of group home. Funds appropriated in [Therapeutic Group Home Rate Increase] may be used only for rate increases for therapeutic group homes. Funds in [Therapeutic Group Home Rate Increase] may not be used to fund other programs."

"Funds in item [One-Time Payments to Nursing Homes] may be used only to make one-time payments to nursing homes based on the number of Medicaid services provided. State special revenue in item [One-Time Payments to Nursing Homes] may be expended only after the Office of Budget and Program Planning has certified that the department has received \$2 million each year from counties participating in the intergovernmental transfer program for nursing homes."

"The department shall distribute funds in [Direct Care Worker Wage Increases] in a way that provides reasonable assurance that the funds are used solely for direct care wage and benefit increases. Not all providers or types of direct care workers must receive the same rate increase for the biennium. Funds appropriated in [Direct Care Worker Wage Increases] may be used only for direct care worker wage increases. Funds in [Direct Care Worker Wage Increases] may not be used to fund other programs."

"Item [Cigarette Tax Revenue - Veterans' Homes] may be used only to operate Montana Veterans' Homes at a capacity to maximize collection of federal revenue and private payments."

"Item [Federal Mental Health Block Grant] may be expended only for mental health services. The Office of Budget and Program Planning shall certify that the department has received a federal Mental Health Block Grant prior to allowing expenditures against the appropriation."

### **Legislation**

Major bills that affect DPHHS are summarized. Some of these bills are discussed in more detail in the agency narrative or within the program narrative.

House Joint Resolution 3 – HJR 3 requests an interim committee study of child abuse and neglect proceedings to determine how to provide legal representation for indigent families and the earliest appropriate opportunity

House Bill 3 – HB 3 provides supplemental appropriations for the 2003 biennium. This bill provides DPHHS \$2.1 million general fund for the Child Support Enforcement Division (\$1.2 million) and Disability Services Division, Montana Developmental Center (\$0.9 million).

House Bill 5 – HB 5 appropriates funds for capital projects. Several projects for the state hospital and veterans' homes were approved:

- \$2,252,000 in state special revenue and federal funds to renovate the Old Main building at the Montana Veterans' Home
- \$231,600 in state special revenue from the cigarette taxes allocated to support veterans' homes. The funds will be used to demolish an old building
- \$215,000 in long-range building funds for electrical upgrades at the state hospital

House Bill 121 - HB 121 clarifies the deposit of federal Medicaid reimbursement for state mental health institution

services. Previously the funds were appropriated for support of mental health managed care services. Now the federal reimbursement will be deposited to the general fund as revenue.

House Bill 159 – HB 159 provides for the separate licensure of food manufacturers from retail food establishments. The inspection and enforcement activities created by the bill are financed through imposition of license fees and penalties for violations.

House Bill 180 - HB 180, recommended by the Legislative Finance Committee as a result of its study of public mental health services, creates two new statutory appropriations within the allocation of alcohol tax proceeds allocated to DPHHS: 20 percent to state approved chemical dependency programs; 6.6 percent to services that treat persons with both a mental illness and chemical dependency.

House Bill 452 – HB 452 provides a tax credit for contributions made to an account that is to be used to provide services to individuals with developmental disabilities and specifies how the money in the account may be used. Because the funds in this account must be used to match federal Medicaid funds, additional federal Medicaid funds were appropriated to the Disabilities Services Division in HB 2.

House Bill 481 – HB 481 provides a hospital utilization bed fee during the 2005 biennium to provide the matching funds to draw down federal Medicaid funds to maximize hospital reimbursement under federal Medicaid guidelines. The fee is imposed during the 2005 biennium only and is considered a one-time appropriation.

House Bill 569 – HB 569 provides an at-home infant care program for low-income families as an alternative to childcare assistance. This legislation states that the program may be funded by a specific appropriation in HB 2 or by a budget amendment if federal funds are received for this purpose. A specific appropriation for this purpose was not included in HB 2.

House Bill 698 – HB 698 creates a traumatic brain injury advisory council to advise DPHHS and allows persons to provide a donation to traumatic brain injury education and prevention when they register their vehicles. The fees collected will support the advisory council activities.

House Bill 705 – HB 705 increases the nursing home bed fee during the 2005 biennium to provide the matching funds to draw down federal Medicaid funds to maximize nursing home reimbursement under federal Medicaid guidelines. The fee is imposed during the 2005 biennium only and is considered a one-time appropriation.

House Bill 721 - HB 721 revises water's edge election for corporate taxation and creates a state special revenue account that must receive \$375,000 of revenue due to revisions made by HB 721. The state special revenue must be used as matching funds for Medicaid services. The legislature appropriated the funds to partially offset the executive proposal for Medicaid provider rate reductions for community services for elderly and physically disabled persons.

House Bill 722 – HB 722 was requested by the Joint Appropriations Subcommittee on Health and Human Services and provides for a bed tax on intermediate care facilities for the mentally retarded (ICF/MR). Medicaid will pay a portion of this bed tax. This legislation was necessary so that DPHHS could implement a refinancing mechanism that increases federal funds and decrease general fund supporting DPHHS.

House Bill 727 – HB 727 was requested by the Joint Appropriations Subcommittee on Health and Human Services and provides for the closure of the Eastern Montana Human Services Center (Eastmont) as a facility serving developmentally disabled adults no later than December 31, 2003. This bill also transfers ownership of the facility to the Department of Corrections (DOC) and may be used for any purpose determined appropriate by DOC.

House Bill 734 – HB 734 changes the designated state agency for the Developmental Disabilities Planning and Advisory Council (DDPAC) from DPHHS to the Department of Commerce. Funding for DDPAC was moved from the Disability Services Division to the Department of Commerce consistent with the provisions of this bill.

House Bill 743 - HB 743 was requested by Joint Appropriations Subcommittee on Health and Human Services. It establishes a bed tax on services provided by the nursing care center. The federal Medicaid reimbursement for a portion of the tax is adequate to offset the state share of costs and provide excess revenue, which is deposited to the Prevention and Stabilization Fund (\$266,136 over the biennium).

House Bill 744 - HB 744 was requested by Joint Appropriations Subcommittee on Health and Human Services. This legislation:

- Directs DPHHS to:
  - Seek federal funds to offset general fund expenditures to the maximum extent possible
  - Evaluate the proposed Medicaid block grant as part of refinancing activities and report findings at each regular meeting of the legislative finance committee
- Provides for the use of funding obtained through refinancing
- Allows DPHHS to reinstate services if authorized by the Office of Budget and Program Planning
- Allows DPHHS to keep general fund savings generated through refinancing

Senate Bill 35 – SB 35 was requested by the Children, Families, Health, and Human Services interim committee and revises criminal procedure for developmentally disabled individuals. Because criminal commitments of developmentally disabled individuals are already possible and have occurred under current law, this statutory change is not expected to have any financial impact on the department.

Senate Bill 55 – The Legislative Finance Committee requested SB 55 as a result of its study of public mental health services. The bill revises community commitment law criteria to specify that an involuntary commitment to community services could be longer than an involuntary commitment to the state hospital if the person had been treated at the state hospital previously

Senate Bill 56 - The Legislative Finance Committee requested SB56 as a result of its study of public mental health services. The bill limits the period of confinement at the state hospital for persons found not guilty by reason of mental illness to a time period no greater than the sentence they would have received if they had been guilty.

Senate Bill 57- The Legislative Finance Committee requested SB 57 as a result of its study of public mental health services. SB 57 establishes a definition of mental disease or defect in Montana statute since absent such a definition the Montana Supreme Court had used a definition from New York in cases before it.

Senate Bill 191 - SB 191 defines "unsubstantiated" report of child abuse or neglect and provides for the destruction of "unsubstantiated" reports of child abuse or neglect.

Senate Bill 464 - This bill generally revised health and safety laws regarding food establishments. It also revised fees deposited to a state special revenue account. The legislature appropriated state special revenue funds in HB 2 to support changes in inspection and licensure.

Senate Bill 473 - SB 473 created an expansion of the Medicaid prescription drug program. The bill was a legislative initiative and is discussed in greater detail earlier in the agency narrative.

Senate Bill 485 - SB 485 was requested by the Joint Appropriations Subcommittee on Health and Human Services. The bill revises the use of tobacco settlement proceeds, specifies priorities for the use the funds, and appropriates funding to DPHHS for a number of programs.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	451.20	1.00	0.00	452.20	1.00	0.00	452.20	452.20
Personal Services	17,195,689	773,346	(1,102,504)	16,866,531	782,773	(693,075)	17,285,387	34,151,918
Operating Expenses	6,451,501	(864,896)	278,109	5,864,714	(1,249,940)	0	5,201,561	11,066,275
Equipment	56,607	(31,518)	0	25,089	(31,518)	0	25,089	50,178
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	14,657,686	1,381,410	0	16,039,096	1,934,184	0	16,591,870	32,630,966
Benefits & Claims	88,796,202	62,728,160	1,989,705	153,514,067	63,328,159	(400,000)	151,724,361	305,238,428
Transfers	0	0	0	0	0	0	0	0
Debt Service	56,592	36,837	0	93,429	36,837	0	93,429	186,858
<b>Total Costs</b>	<b>\$127,214,277</b>	<b>\$64,023,339</b>	<b>\$1,165,310</b>	<b>\$192,402,926</b>	<b>\$64,800,495</b>	<b>(\$1,093,075)</b>	<b>\$190,921,697</b>	<b>\$383,324,623</b>
General Fund	21,737,319	266,069	(405,747)	21,597,641	(325,257)	(935,566)	20,476,496	42,074,137
State/Other Special	411,046	99,205	0	510,251	99,205	0	510,251	1,020,502
Federal Special	105,065,912	63,658,065	1,571,057	170,295,034	65,026,547	(157,509)	169,934,950	340,229,984
NonExpendable Trust	0	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$127,214,277</b>	<b>\$64,023,339</b>	<b>\$1,165,310</b>	<b>\$192,402,926</b>	<b>\$64,800,495</b>	<b>(\$1,093,075)</b>	<b>\$190,921,697</b>	<b>\$383,324,623</b>

**Program Description**

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

The Public Assistance Bureau administers Montana's welfare reform program funded by the Temporary Assistance to Needy Families (TANF) block grant. The bureau also provides eligibility determination services for Medicaid and food stamps. The legislature approved movement of the eligibility determination function for federal Title IV-E from this division to the Child and Family Services Division.

The Early Childhood Bureau: 1) manages the funds which pay for childcare for TANF participants and low-income working families; 2) contracts with 12 resource and referral agencies for the administration of child care eligibility, provider recruitment, and technical assistance; 3) administers the Child and Adult Care Food Program, which provides reimbursement to child care providers for the cost of meals served to eligible children and adults; and 4) administers the Head Start state collaboration project and the Childcare Apprenticeship Grant.

The Intergovernmental Human Services Bureau administers: 1) the Community Services Block Grant used by ten Human Resource Development Councils to provide a wide range of community-based human services; 2) the Low-Income Energy Assistance Program and several other weatherization programs; 3) the Emergency Shelter Grants program; 4) the United States Department of Agriculture (USDA) commodities programs; and 5) the Housing Opportunities for People with AIDS Grant. The bureau also stores and distributes USDA commodity foods to a wide range of recipients.

The figure on the following page illustrates the allocation of funding among the segments of the division. Public assistance functions account for the largest portion of the division funding, 71 percent. Energy and Commodity Assistance programs comprise 11 percent of the division funding and early childhood services including childcare, and child food and nutrition programs, comprise the remaining 18 percent of the division funding.

Human and Community Services Division Summary of Major Program Functions with Funding													
Function	Fiscal 2002 - Base Budget				Fiscal 2004 - Requested				Fiscal 2005 - Requested				Percent of Total
	General Fund	State Special	Federal	Total Funds	General Fund	State Special	Federal	Total Funds	General Fund	State Special	Federal	Total Funds	
<b>Public Assistance:</b>													
Administration - Division	\$ 106,076	\$ -	\$ 267,182	\$ 373,258	\$ (988,901)	\$ -	\$ 521,973	\$ (466,928)	\$ (817,761)	\$ -	\$ 762,254	\$ (55,507)	0.0%
Administration - Public Assistance	981,202	728	1,053,658	2,035,588	983,462	75	900,156	1,883,693	989,676	75	899,658	1,889,409	1.0%
Administration - County	8,584,786	0	8,459,984	17,044,770	8,976,305	0	8,841,487	17,817,792	8,783,222	0	8,648,301	17,431,523	9.1%
TANF Cash Assistance	289,446	0	29,602,587	29,892,033	289,446	0	31,769,235	32,058,681	289,446	0	31,769,235	32,058,681	16.8%
TANF Employment, Training, Work	7,036,002	0	250,148	7,286,150	7,036,002	0	208,940	7,244,942	7,036,022	0	209,864	7,245,886	3.8%
TANF Supportive Services	1,102,753	0	(472)	1,102,281	1,102,753	0	(472)	1,102,281	1,102,753	0	(472)	1,102,281	0.6%
Refugee Programs	0	0	146,639	146,639	0	0	235,798	235,798	0	0	235,798	235,798	0.1%
Food Stamp Training & Support Serv	549,146	165,000	1,191,377	1,905,523	549,146	165,000	1,169,181	1,883,327	549,146	165,000	1,169,759	1,883,905	1.0%
Food Stamp Benefits	110,874	0	9,945,780	10,056,654	148,709	0	72,657,140	72,805,849	143,314	0	73,662,535	73,805,849	38.7%
TANF Phase IIR	341,053	-	4,978,668	5,319,721	341,053	-	-	341,053	341,053	-	-	341,053	0.2%
<b>Subtotal Public Assistance</b>	<b>19,101,338</b>	<b>165,728</b>	<b>55,895,551</b>	<b>75,162,617</b>	<b>18,437,975</b>	<b>165,075</b>	<b>116,303,438</b>	<b>134,906,488</b>	<b>18,416,871</b>	<b>165,075</b>	<b>117,356,932</b>	<b>135,938,878</b>	<b>71.2%</b>
Percent of Total	25.4%	0.2%	74.4%	100.0%	13.7%	0.1%	86.2%	100.0%	13.5%	0.1%	86.3%	100.0%	
<b>Energy and Commodity Assistance:</b>													
Administration - Energy and Commodities	\$31,225	\$0	\$3,709,694	\$3,740,919	\$31,804	\$0	\$3,780,765	\$3,812,569	\$31,763	\$0	\$3,775,890	\$3,807,653	2.0%
Benefits - Energy and Commodities	76,000	245,318	12,096,880	12,418,198	76,000	345,176	17,104,865	17,526,041	76,000	345,176	16,137,055	16,558,231	8.7%
<b>Subtotal Energy and Commodity</b>	<b>107,225</b>	<b>245,318</b>	<b>15,806,574</b>	<b>16,159,117</b>	<b>107,804</b>	<b>345,176</b>	<b>20,885,630</b>	<b>21,338,610</b>	<b>107,763</b>	<b>345,176</b>	<b>19,912,945</b>	<b>20,365,884</b>	<b>10.7%</b>
Percent of Total	0.7%	1.5%	97.8%	100.0%	0.5%	1.6%	97.9%	100.0%	0.5%	1.7%	97.8%	100.0%	
<b>Early Childhood Services:</b>													
Administration - Child Care	\$0	\$0	\$403,736	\$403,736	\$0	\$0	\$455,167	\$455,167	\$0	\$0	\$457,143	\$457,143	0.2%
Childcare Matching	1,209,689	-	4,406,365	5,616,054	932,758	-	8,266,982	9,199,740	532,758	-	8,269,253	8,802,011	4.6%
Childcare Mandatory	1,313,990	-	2,090,175	3,404,165	1,313,990	-	2,086,400	3,400,390	1,313,990	-	2,086,400	3,400,390	1.8%
Childcare Discretionary	-	-	14,447,271	14,447,271	800,000	-	8,830,809	9,630,809	100,000	-	7,830,821	7,930,821	4.2%
Quality - Child Care	-	-	2,395,648	2,395,648	-	-	2,395,652	2,395,652	-	-	2,395,652	2,395,652	1.3%
Head Start	5,077	-	129,681	134,758	5,114	-	129,681	134,795	5,114	-	129,681	134,795	0.1%
Child and Adult Care Food Program	0	0	9,490,911	9,490,911	0	0	10,941,275	10,941,275	0	0	11,496,123	11,496,123	6.0%
<b>Subtotal Early Childhood Services</b>	<b>2,528,756</b>	<b>-</b>	<b>33,363,787</b>	<b>35,892,543</b>	<b>3,051,862</b>	<b>-</b>	<b>33,105,966</b>	<b>36,157,828</b>	<b>1,951,862</b>	<b>-</b>	<b>32,665,073</b>	<b>34,616,935</b>	<b>18.1%</b>
Percent of Total	7.0%	0.0%	93.0%	100.0%	8.4%	0.0%	91.6%	100.0%	5.6%	0.0%	94.4%	100.0%	
<b>Total Human and Community Services Div.</b>	<b>\$21,737,319</b>	<b>\$411,046</b>	<b>\$105,065,912</b>	<b>\$127,214,277</b>	<b>\$21,597,641</b>	<b>\$510,251</b>	<b>\$170,295,034</b>	<b>\$192,402,926</b>	<b>\$20,476,496</b>	<b>\$510,251</b>	<b>\$169,934,950</b>	<b>\$190,921,697</b>	<b>100.0%</b>
Percent of Total	17.1%	0.3%	82.6%	100.0%	11.2%	0.3%	88.5%	100.0%	10.7%	0.3%	89.0%	100.0%	

Information regarding the division's budget for benefit costs and grant costs is included in the figure on the following page. Food stamp benefit expenditures comprise 48 percent of the division's budget for benefits. TANF cash assistance costs comprise 21 percent, energy and commodity assistance 12 percent and childcare 11 percent of the division's benefit budget. The Child and Adult Food Program (CACFP) accounts for 67 percent and childcare 32 percent of the grants administered by the division.

Human and Community Services Division Summary of Benefit and Grant Costs and Funding													
Program	Fiscal 2002 Base				Fiscal 2004 Appropriation				Fiscal 2005 Appropriation				Percent Total
	General Fund	State Spec. Rev	Federal Funds	Total Funds	General Fund	State Spec. Rev	Federal Funds	Total Funds	General Fund	State Spec. Rev	Federal Funds	Total Funds	
<b>Benefits &amp; Claims</b>													
Public Assistance Bureau	\$59,047	\$44	\$63,408	\$122,499	\$63,956	\$5	\$58,538	\$122,499	\$64,165	\$5	\$58,329	\$122,499	0.1%
County Admin	500	-	500	1,000	500	-	500	1,000	500	-	500	1,000	0.0%
TANF Cash Assistance	289,466	-	29,602,587	29,892,053	289,446	-	31,769,235	32,058,681	289,446	-	31,769,235	32,058,681	21.1%
TANF Employment, Training	6,464,794	-	229,840	6,694,634	6,464,794	-	229,840	6,694,634	6,464,794	-	229,840	6,694,634	4.4%
TANF Supportive Services	1,102,104	-	-	1,102,104	1,102,104	-	-	1,102,104	1,102,104	-	-	1,102,104	0.7%
Refugee Services	-	-	3,497	3,497	-	-	54,096	54,096	-	-	54,096	54,096	0.0%
Food Stamp Training/Support	294,453	88,473	638,818	1,021,744	294,453	88,473	638,818	1,021,744	294,453	88,473	638,818	1,021,744	0.7%
Food Stamps	-	-	9,821,755	9,821,755	-	-	72,009,955	72,009,955	-	-	73,009,955	73,009,955	48.1%
FAIM Phase IIR	-	-	5,035,028	5,035,028	-	-	1,984,476	1,984,476	-	-	1,984,476	1,984,476	1.3%
Energy and Commodities	-	-	14,659,315	14,659,315	-	-	19,319,446	19,319,446	-	-	18,629,740	18,629,740	12.3%
Childcare	<u>2,520,679</u>	-	<u>17,921,914</u>	<u>20,442,593</u>	<u>3,046,748</u>	-	<u>16,098,684</u>	<u>19,145,432</u>	<u>632,758</u>	-	<u>16,412,604</u>	<u>17,045,362</u>	<u>11.2%</u>
<b>Total Benefits &amp; Claims</b>	<b><u>\$10,731,043</u></b>	<b><u>\$88,517</u></b>	<b><u>\$77,976,662</u></b>	<b><u>\$88,796,222</u></b>	<b><u>\$11,262,001</u></b>	<b><u>\$88,478</u></b>	<b><u>\$142,163,588</u></b>	<b><u>\$153,514,067</u></b>	<b><u>\$8,848,220</u></b>	<b><u>\$88,478</u></b>	<b><u>\$142,787,593</u></b>	<b><u>\$151,724,291</u></b>	<b><u>100.0%</u></b>
<b>Grants</b>													
Admin	\$87	\$0	\$217	\$304	\$6,537	\$0	\$16,359	\$22,896	\$6,537	\$0	\$16,359	\$22,896	0.1%
TANF Employment, Training	23,876	-	-	23,876	23,876	-	-	23,876	23,876	-	-	23,876	0.1%
Refugee	-	-	114,974	114,974	-	-	142,085	142,085	-	-	142,085	142,085	0.9%
Childcare	-	-	5,359,934	5,359,934	-	-	5,359,934	5,359,934	-	-	5,359,934	5,359,934	32.3%
Child and Adult Food Program	-	-	9,158,598	9,158,598	-	-	10,490,305	10,490,305	-	-	11,043,079	11,043,079	66.6%
<b>Total Grants</b>	<b><u>\$23,963</u></b>	<b><u>\$0</u></b>	<b><u>\$14,633,723</u></b>	<b><u>\$14,657,686</u></b>	<b><u>\$30,413</u></b>	<b><u>\$0</u></b>	<b><u>\$16,008,683</u></b>	<b><u>\$16,039,096</u></b>	<b><u>\$30,413</u></b>	<b><u>\$0</u></b>	<b><u>\$16,561,457</u></b>	<b><u>\$16,591,870</u></b>	<b><u>100.0%</u></b>

**Program Narrative**

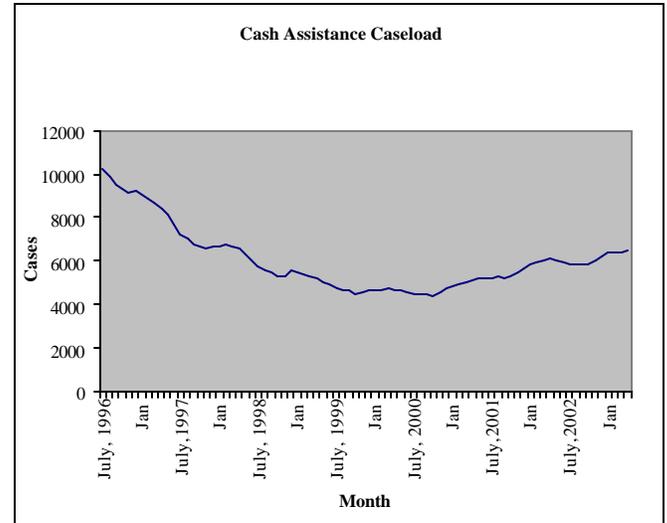
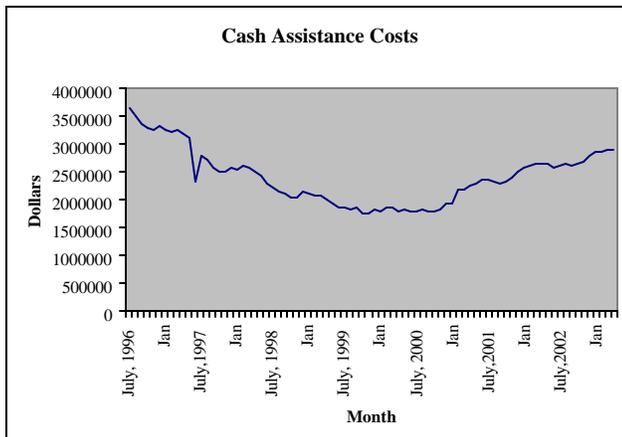
<b>Human and Community Services Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>○ General fund support for the division, including an agency wide reduction in personal services funding, decreases about 4 percent for the 2005 biennium from the 2003 biennium, and total funding increases 25 percent between the two biennia</li> <li>○ Increased funding for food stamp benefits totals \$126.5 million federal funds for the biennium, the majority of which (\$110 million) is due to an accounting change and the balance (about \$16 million) is due to caseload growth</li> <li>○ Increases in federal grants total \$20.1 million for the biennium</li> <li>○ The legislature approved childcare funding totaling about \$27 million in fiscal 2004 and \$23 million in fiscal 2005, including \$2 million of state special revenue that is appropriated in SB 485, revising the allocation of tobacco settlement proceeds</li> <li>○ The legislature reduced federal funding for TANF cash assistance by \$3 million for the biennium and utilized this funding for childcare services</li> <li>○ TANF cash assistance caseloads continue to increase and the department indicated that in order to maintain expenditures within the available funding a reduction in the monthly cash benefit payment is likely to be necessary beginning in the summer of 2003</li> <li>○ The legislature rejected the department's request for a one time increase in general fund support for TANF MOE to offset spending reductions that were implemented by the executive in fiscal 2003</li> </ul>

*TANF and Childcare*

The primary fiscal policy issues that the legislature considered relating to this division's budget related to the Temporary Assistance for Needy Families (TANF) cash assistance caseloads, a potential decrease in the monthly cash assistance payment, and the relationship between cash assistance need and the availability of subsidized childcare.

**Cash Assistance**

Cash assistance caseloads have increased significantly since the 2001 legislative session. TANF cash assistance costs have increased from a low of \$21.8 million in fiscal 2000 to \$29.9 million in fiscal 2002 and are projected to reach \$33.6 million in fiscal 2003. The executive requested that cash assistance costs be budgeted at \$33.6 million per year in the 2005 biennium. The legislature reduced the funding for cash assistance by \$3 million for the biennium and appropriated this funding for childcare. Cash assistance caseloads are currently at the highest level since October 2000. The following figures provide visual illustrations of the increases in cash assistance caseload costs and number of cases experienced since welfare reform was implemented.



Because the state now receives a fixed amount of federal assistance and does not have any federal funds to carryover from prior years, expenditures must be maintained within the funding available in the annual grant award. Cash assistance costs currently account for about 75 percent of the federal grant and almost 60 percent of the combined funding available in the federal grant and TANF maintenance of effort. The department indicated that the cash assistance caseload is reaching a level that cannot be sustained on the funding available and that a reduction in the monthly cash assistance payment (currently established at 40.5 percent of the federal poverty level) may be necessary to maintain expenditures within the available funding. The legislature adopted the following statement of legislative intent for inclusion in HB 2 narrative and this report.

"When TANF benefit expenditure projections exceed a sustainable level for the 12-month period, benefits may be reduced to a level that would maintain solvency of the block grant. The trigger and process for benefit reduction is as follows:

1. An average monthly TANF expenditure amount will be calculated based on three consecutive months beginning July 1, 2003 of benefit expenditures and benefits will not be reduced prior to December 2003. This average will be projected over a 12-month period and if the projection exceeds the budgeted amount available for benefits, then;
2. The department will certify to the Office of Budget and Program Planning that benefit expenditures are projected to exceed the available grant.
3. The new benefit level will be set by using an average of actual benefit expenditures over a period of time that captures seasonal variations in the amount of benefits needed.
4. If during this biennium benefit levels are reduced under the circumstances above, this process and benefit levels will be revisited during the next legislative session."

Subsequent to this action the department notified the legislature that it was likely that the monthly cash assistance benefit level would need to be reduced prior to December 2003. Because statements included in HB 2 narrative or this report are not legally binding, and because the legislature has provided the department statutory authority to establish the cash assistance benefit level, the department may legally reduce the monthly cash assistance benefit level prior to December.

The legislature also included the following language in HB 2 as guidance for the department in the event that cash assistance caseloads decrease and federal TANF funds become available to use for other purposes.

"Item [Human and Community Services Division] includes \$31,769,235 of federal funds in fiscal year 2004 and \$31,769,235 of federal funds in fiscal year 2005 to fund cash assistance benefits provided under Montana's temporary assistance for needy families (TANF) grant. If caseloads decrease below this level of funding, resulting in a surplus of federal TANF funds, the following priorities may be funded:

1. Childcare subsidies;

2. A "rainy day" fund of up to \$4 million;
3. Training and education programs to achieve employment in higher wage jobs, including programs offered by tribal colleges; or
4. Supportive services needed for employment of TANF recipients."

The legislative budget for the 2005 biennium does not include the transfer of federal TANF funds to Title XX (Child and Family Services and Disability Services Divisions) and only \$3 million of TANF funds are transferred to childcare.

**Childcare**

The actual total funding available for childcare was estimated during the legislative session to be slightly less than the funding available in the fiscal 2002 base budget. However, the total appropriations for childcare, including some federal funds that may not be realized, is slightly greater than the fiscal 2002 base budget level. The legislature sought to fund childcare in fiscal 2004 near the fiscal 2002 base level in an effort to decrease and/or limit the rate of increase in the TANF cash assistance caseload. The legislature adopted the following statement of legislative intent for inclusion in HB 2 narrative and the fiscal report.

"Due to the relationship of the availability of childcare subsidies and the ability of low-income families to seek and continue employment, thus avoiding the necessity of receiving cash assistance, the legislature in its prioritization of funding programs appropriated sufficient state special revenue to the Department of Public Health and Human Services to maintain expenditures for childcare at the fiscal year 2002 level. It is the legislature's intent and expectation that during the 2005 biennium funding for childcare subsidies be maintained at the fiscal 2002 level."

Subsequent to the adoption of this language, legislative actions changed the level of funding for childcare and inserted the following language in HB 2.

"Funding in item [childcare] may be used only to provide childcare subsidies. In an effort to stabilize, decrease, or decrease the rate of growth in the TANF cash assistance caseload, the legislature has appropriated \$25,600,000 for childcare services in fiscal year 2004. It is the legislature's intent that this funding is to be fully expended for childcare services in fiscal year 2004."

The \$25.6 million referred to in the language does not include the appropriation provided in SB 485, and is about \$0.5 million above the appropriation actually included in HB 2. This \$0.5 million difference between HB 2 and the language included in HB 2 is likely due to fluctuations in funding that continued to occur throughout the legislative session.

The legislature moved \$3 million from TANF cash assistance to childcare because it was concerned that decreases in childcare expenditures would result in increases in the TANF cash assistance caseload and prevent some families from leaving TANF cash assistance. At the current cash assistance caseload level of about 6,500 cases this equates to a reduction in the monthly cash payment of about \$20 per month. It should be noted that the department, through administrative rule, establishes the monthly cash payment at a percentage of the federal poverty level and will adjust this percentage to a level that results in an estimated \$3 million of decreased cash assistance expenditures rather than simply reducing the monthly cash assistance payment by \$20 per month.

Funding Source	Childcare Funding			
	Actual 2002	Appropriated 2004	Appropriated 2005	Percent of Total
General Fund	\$ 2,528,756	\$ 3,051,862	\$ 1,951,862	10.4%
Percent of Total	9.6%	12.2%	8.5%	
Federal Funds:				
Discretionary Child Care	16,796,919	12,180,461	11,180,473	48.6%
Child Care Mandatory/MOE	2,090,175	3,086,400	3,086,400	12.8%
Child Care Admin	403,736	528,171	539,387	2.2%
Child Care Matching	4,406,365	6,196,101	6,196,101	25.8%
Other Federal	46,000	43,877	36,908	0.2%
Subtotal Federal Funds	<u>23,743,195</u>	<u>22,035,010</u>	<u>21,039,269</u>	
Percent of Total	90.4%	87.8%	91.5%	
Total Funding - HB 2	\$ 26,271,951	\$ 25,086,872	\$ 22,991,131	
State Spec Revenue, SB 485*	0	<u>2,000,000</u>	<u>-</u>	
Total Childcare Funding	<u>\$ 26,271,951</u>	<u>\$ 27,086,872</u>	<u>\$ 22,991,131</u>	<u>100.0%</u>
Percent change		3.1%	15.1%	
*Notes				
SB 485 provides a biennial appropriation of \$2 million.				

The legislature also provided \$0.9 million general fund for childcare by approving an unspecified reduction of general fund support for the department of \$1.0 million for the biennium. This unspecified reduction is included in the Operations and Technology Division budget. Lastly, the legislature also provided a \$2.0 million biennial appropriation of state special revenue in SB 485, revising the use of tobacco settlement proceeds, for childcare. Combined, these actions provide the department with \$2.9 million, which is sufficient state matching funds to draw all federal childcare matching funds that are expected to be available in the 2005 biennium.

As summarized in the figure above, childcare funding (including funding in SB 485) in fiscal 2004 is \$27.1 million or 3 percent greater than the fiscal 2002 base funding level, and decreases to \$22.9 million between fiscal 2004 and 2005, or 15 percent. These amounts include a potential increase in federal funds for childcare, which may not be fully realized. It is currently unknown if or how much federal funding for childcare will increase.

**TANF Maintenance of Effort (MOE)**

In order to receive the federal TANF grant, states must continue to expend state and local resources at a level known as the "maintenance of effort" or "MOE". Montana's annual MOE is about \$14.8 million. Generally, states must maintain expenditures at a minimum of 80 percent of their historic level in order to receive the federal TANF grant. If states meet the federally mandated work participation rates, they may reduce the MOE to 75 percent of historic expenditures. Because Montana has met the mandated work participation rates, the 2001 legislature reduced required MOE to 75 percent.

During fiscal 2003 the department implemented a number of spending reductions. Some of these reductions impacted the general fund available for TANF MOE. Notably, a \$973,117 reduction in Work Readiness Component (WoRC) contracts and supportive services (at the direction of the Governor in accordance with section 17-7-140, MCA) had a dollar for dollar impact on the funding available for TANF MOE. Other reductions, such as the across the board general fund reduction and reductions in travel and office supplies approved by the legislature during the August 2002 Special Session, also had impacts on the funding available for TANF MOE. The legislature did not approve the executive request for almost \$1.2 million general fund to assist them in meeting the TANF MOE requirements, which must be met on a federal fiscal year basis. Because the TANF MOE requirement must be met on a federal fiscal year basis it is possible for the state to manipulate expenditures between state and federal fiscal years and comply with the federal requirement without fully expending the TANF MOE in the state fiscal year. The figure above provides an example of a TANF MOE expenditure pattern that illustrates an expenditure reduction in one state fiscal year while maintaining expenditures at the required level on the federal fiscal year basis. Thus, funding appropriated by the legislature should be adequate to fulfill the TANF MOE required by federal regulation.

Temporary Assistance For Needy Families (TANF) Maintenance of Effort (MOE)					
Spending Scenario					
Quarter	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006
July - September	\$ 2,640,767	\$ 2,624,654	\$ 3,778,536	\$ 3,778,536	\$ 3,778,536
October - December	3,314,224	3,684,927 *	3,684,927	3,684,927	
January - March	3,747,841	3,684,927 *	3,684,927	3,684,927	
April - June	<u>5,146,599</u>	<u>3,684,927 *</u>	<u>3,684,927</u>	<u>3,684,927</u>	
<b>Total</b>	<b>\$ 14,849,431</b>	<b>\$13,679,436</b>	<b>\$14,833,318</b>	<b>\$14,833,318</b>	<b>\$ 3,778,536</b>
Per Federal Fiscal Year					
Federal Fiscal 2002 MOE					
Federal Fiscal 2002 Total	\$ 14,833,318				
Federal Fiscal 2003 Total		\$14,833,318			
Federal Fiscal 2004 Total			\$14,833,318		
Federal Fiscal 2005 Total				\$14,833,318	

\* Reduced by one third of \$1,153,882 spending reduction implemented in fiscal 2003.

**Other Federal Grants**

The legislature approved \$20.1 million for increases in several federally funded programs including: 1) childcare mandatory and discretionary programs; 2) the Child and Adult Food Care Program; 3) several housing, home energy, commodity, and weatherization programs; 4) and a grant to provide housing assistance to people with AIDS.

**Food Stamps**

The food stamp program is a federal program administered by the United States Department of Agriculture (USDA). The program provides low-income households funds for the purchase of foods. The federal government reimburses states for 50 percent of the administrative costs of the program and 100 percent of the benefit costs of the program. The

USDA mandated that food stamp benefits be distributed by states electronically. The deadline for implementation of electronic transfer of benefits was October 2002.

Prior to the distribution of food stamp benefits through electronic means, the department contracted with a company that distributed food stamp coupons to eligible households. The coupons were provided to the contractor by the federal government. Thus, the financial transaction for the issuance of food stamp benefits did not impact the state treasury. Because the state treasury was not impacted, Montana statutes did not require that these benefits be appropriated. However, the implementation of electronic benefit transfer has changed the manner in which these transactions are processed. The expenditure is now processed through the state treasury and the state obtains reimbursement for the benefits issued from the federal government. Because the financial transactions are now processed through the state treasury, an appropriation for the expenditure must be made. During fiscal 2002, the phase-in period for electronic benefit transfer, the department expended approximately \$10 million for food stamp benefits. The legislature appropriated an additional \$126.5 million federal funds for the biennium to increase funding for food stamp benefit costs to the level projected for the 2005 biennium.

**Program Reorganization**

Due to reorganization, the Abstinence Program is moved from the Director's Office to the Human and Community Services Division. The Abstinence Program is an educational program that is a primary prevention program for out-of-wedlock pregnancy, abortion, sexually transmitted disease, and the related psychological and social issues. The Abstinence Program is funded entirely with federal grant funds.

**Funding**

The following table shows program funding, by source, for the base year and for the 2005 biennium as appropriated by the legislature.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 21,737,319	17.1%	\$ 21,597,641	11.2%	\$ 20,476,496	10.7%
02375 6901-02 Indrct Activity Prog 02	728	0.0%	75	0.0%	75	0.0%
02931 Food Stamps Recoupment Acct	165,000	0.1%	165,000	0.1%	165,000	0.1%
02974 Univ Low-Income Energy Assist	245,318	0.2%	345,176	0.2%	345,176	0.2%
03066 81.042 Bpa	283,734	0.2%	284,026	0.1%	283,995	0.1%
03096 Discretionary Child Care	16,796,919	13.2%	12,180,461	6.3%	11,180,473	5.9%
03103 Tanf Administration	179,742	0.1%	442,301	0.2%	443,965	0.2%
03109 Tanf Benefits	34,826,009	27.4%	31,972,781	16.6%	31,973,705	16.7%
03208 Abstinence Education Blk Grant	19,124	0.0%	243,828	0.1%	243,764	0.1%
03236 Child Nutrition	9,109,798	7.2%	10,446,535	5.4%	11,005,264	5.8%
03250 Child Care Mandatory/Moe	2,090,175	1.6%	3,086,400	1.6%	3,086,400	1.6%
03251 Child Care Admin	403,736	0.3%	528,171	0.3%	539,387	0.3%
03252 Child Care Matching	4,406,365	3.5%	6,196,101	3.2%	6,196,101	3.2%
03382 Pgm 2 Indirects	9,237,697	7.3%	9,603,339	5.0%	9,616,805	5.0%
03390 Reach	397,414	0.3%	-	-	1	0.0%
03518 93.044 - Aging Sup S & Train 1	37,617	0.0%	42,495	0.0%	43,022	0.0%
03523 93.566 - Refugee Soc. Serv	77,331	0.1%	62,717	0.0%	62,717	0.0%
03539 93.600 Headstart	129,681	0.1%	129,681	0.1%	129,681	0.1%
03544 10.561 - Fs E & T - 50%	224,982	0.2%	224,982	0.1%	224,982	0.1%
03545 10.561 - Fs E & T - 100%	573,919	0.5%	364,589	0.2%	364,589	0.2%
03546 10.561 - Fs Adm - Fed Exp 50%	757,229	0.6%	1,156,722	0.6%	1,160,477	0.6%
03547 10.568 - Emerg Food Assist 100	157,534	0.1%	200,991	0.1%	202,465	0.1%
03548 10.569 - Food Distr - Fed Exp	1,520,064	1.2%	1,575,821	0.8%	1,578,504	0.8%
03550 14.231 - Emerg Shelter - Hud 5	365,018	0.3%	364,955	0.2%	364,979	0.2%
03552 81.042 - Weather Ben 100%	1,846,526	1.5%	2,593,135	1.3%	2,594,730	1.4%
03571 93.566 - Off Ref Reset Adm 10	33,750	0.0%	118,081	0.1%	118,081	0.1%
03572 93.568 - Lieap Blk Grt Adm	8,007,700	6.3%	11,524,903	6.0%	11,525,836	6.0%
03573 93.569 - Csbj Adm	2,881,815	2.3%	2,886,742	1.5%	2,887,623	1.5%
03579 93.667 - Ssbj - Benefits	46,000	0.0%	46,000	0.0%	46,000	0.0%
03580 93.778 - Med Adm 50%	106,386	0.1%	50,000	0.0%	50,000	0.0%
03669 Doe Region 8	-	-	228,905	0.1%	-	-
03677 6901-Cacfp 10.558 & 10.560	381,113	0.3%	496,864	0.3%	499,907	0.3%
03678 6901-Food Stamp Benefits	9,821,755	7.7%	72,000,446	37.4%	73,005,841	38.2%
03679 6901-Hopwa Cfda#14-241	-	-	738,918	0.4%	14	0.0%
03955 Elderly Refugee Grant	35,558	0.0%	55,000	0.0%	55,000	0.0%
03965 Csfj	311,221	0.2%	449,144	0.2%	450,642	0.2%
Grand Total	\$ 127,214,277	100.0%	\$ 192,402,926	100.0%	\$ 190,921,697	100.0%

The HCSD is funded by a combination of general fund, state special revenue, and federal funds. General fund provides 10.7 percent of the division funding and supports:

- Maintenance of effort (MOE) for the Temporary Assistance for Needy Families (TANF) and Childcare Development Fund (CCDF) block grants
- Matching funds for federal program functions including food stamp and Medicaid eligibility determination

The budget for the division includes a \$1.2 million annual reduction in general fund support for personal services. This reduction was approved by the legislature and may be reallocated among programs when operating plans for the biennium are developed.

Prior to the 2001 legislative session, a portion of the division's funding came from county reimbursement for welfare related costs. HB 124, passed by the 2001 legislature, changed the funding of public assistance costs. Rather than counties reimbursing the state for a portion of these costs, they are now funded entirely from the general fund.

Federal funds comprise 89 percent of the division budget. The largest sources of federal funds for the division are food stamp benefits (38 percent), TANF (17 percent), and childcare (11 percent). The level of funding for the food stamp program included in the budget is \$126.5 million more than the costs that were included in the base budget. This dramatic increase is the result of a change in how food stamp benefits are distributed.

**Biennial Comparison**

The 2005 biennium general fund support for the division decreases about 4 percent compared to the 2003 biennium level (Figure below). The decrease in general fund is primarily due to the legislative action that reduced agency funding for personal services. The legislature indicated that the department may allocate this reduction among programs in the department. Without this general fund reduction, the general fund for HCSD decreases about \$0.6 million or less than 1 percent. Federal funding increases 30 percent and total funding for the division increases 25 percent between the two biennia. Federal funding increases due to a change in the budgeting methodology for food stamp benefits and increases in other federal grants.

2003 Biennium Compared to 2005 Biennium Human & Community Services Division					
Budget Item/Fund	2003 Biennium	2005 Biennium	Percent of Total	Change	Percent Incr/Decr
FTE	452.20	452.20		-	
Personal Services	\$ 35,482,047	\$ 34,151,918	8.9%	\$ (1,330,129)	-3.7%
Operating	24,517,975	11,066,275	2.9%	(13,451,700)	-54.9%
Equipment	167,684	50,178	0.0%	(117,506)	-70.1%
Capital Outlay	6,356	-	0.0%	(6,356)	-100.0%
Grants	31,538,237	32,630,966	8.5%	1,092,729	3.5%
Benefits/Claims	213,915,652	305,238,428	79.6%	91,322,776	42.7%
Transfers	29,221	-	0.0%	(29,221)	-100.0%
Debt Service	115,185	186,858	0.0%	71,673	62.2%
<b>Total Costs</b>	<b>\$305,772,357</b>	<b>\$383,324,623</b>	<b>100.0%</b>	<b>\$ 77,552,266</b>	<b>25.4%</b>
General Fund	\$ 43,944,546	\$ 42,074,137	11.0%	\$ (1,870,409)	-4.3%
State Special	837,197	1,020,502	0.3%	183,305	21.9%
Federal Funds	260,990,614	340,229,984	88.8%	79,239,370	30.4%
<b>Total Funds</b>	<b>\$305,772,357</b>	<b>\$383,324,623</b>	<b>100.0%</b>	<b>\$ 77,552,266</b>	<b>25.4%</b>
Percent Increase				25.4%	

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					1,660,200					1,669,514
Vacancy Savings					(754,242)					(754,606)
Inflation/Deflation					54,969					70,316
Fixed Costs					1,883					(775)
<b>Total Statewide Present Law Adjustments</b>					<b>\$962,810</b>					<b>\$984,449</b>
DP 2 - ECSB Admin and Subsidy Caseload Adjustment	0.00	(276,931)	0	3,862,890	3,585,959	0.00	(676,931)	0	3,865,161	3,188,230
DP 3 - Elimination of TANF FAIM Phase IIR	0.00	0	0	(4,977,143)	(4,977,143)	0.00	0	0	(4,977,143)	(4,977,143)
DP 4 - CACFP Present Law Adjustment	0.00	0	0	1,348,230	1,348,230	0.00	0	0	1,901,500	1,901,500
DP 6 - IHSB Present Law Adjustment	1.00	0	100,000	4,088,173	4,188,173	1.00	0	100,000	4,088,090	4,188,090
DP 8 - TANF Cash Benefits	0.00	0	0	3,666,648	3,666,648	0.00	0	0	3,666,648	3,666,648
DP 10 - Food Stamp Benefits and EBT	0.00	25,864	0	62,727,444	62,753,308	0.00	25,864	0	63,727,444	63,753,308
DP 11 - Refugee Resettlement	0.00	0	0	111,442	111,442	0.00	0	0	111,442	111,442
DP 12 - Food Stamp Program ( FSNEP)	0.00	0	0	189,836	189,836	0.00	0	0	189,836	189,836
DP 14 - Reduction in Child Care Base Budget	0.00	0	0	(7,612,239)	(7,612,239)	0.00	0	0	(7,612,239)	(7,612,239)
DP 15 - County OPA Base Budget Reduction	0.00	(188,103)	0	(188,103)	(376,206)	0.00	(388,103)	0	(388,103)	(776,206)
DP 199 - Abstinence Grants/Reorg	0.00	0	0	182,521	182,521	0.00	0	0	182,580	182,580
<b>Total Other Present Law Adjustments</b>	<b>1.00</b>	<b>(\$439,170)</b>	<b>\$100,000</b>	<b>\$63,399,699</b>	<b>\$63,060,529</b>	<b>1.00</b>	<b>(\$1,039,170)</b>	<b>\$100,000</b>	<b>\$64,755,216</b>	<b>\$63,816,046</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$64,023,339</b>					<b>\$64,800,495</b>

### Present Law Adjustments

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

DP 2 - ECSB Admin and Subsidy Caseload Adjustment - The legislature approved a reduction of \$953,862 general fund and an increase of \$7,728,051 federal funds for childcare services. The legislature, in decision package 757 and in SB 485 revising the use of tobacco settlement proceeds, provided funding to offset the general fund reduction. A summary of childcare funding is included in the division narrative.

If realized, the federal funds in this request will be used to: 1) replace expenditures such as overtime that are removed from the base; 2) annualize travel funds; 3) adjust the general fund match for the federal match grant due to FMAP changes; and 4) support anticipated increases in the federal mandatory and discretionary childcare grants. It is anticipated that both the discretionary and mandatory grants will be increased by about \$1,000,000 each for each year of the biennium. This also includes an increase in federal childcare matching funds between fiscal 2002 and 2003 of \$1,792,009. General fund matching dollars are decreased in this request.

DP 3 - Elimination of TANF FAIM Phase IIR - The legislature approved a reduction in federal funds of \$9,954,286 for the biennium including a reduction in FAIM Phase IIR programs and selected other TANF funded programs such as: operations at the prison cannery, TANF Evaluation, and adult basic education services. The 2001 legislature funded a number of new or expanded programs from federal TANF funds that had not been expended but were available as a carryover or reserve funding. This funding, although not designated as such in HB 2, was intended to be a one-time-only appropriation of available reserve funds. This decision package removes this funding from the base budget. The

elimination of TANF funding for the Food Banks, cannery, and Adult Basic Education are due to TANF block grant constraints. The TANF evaluation project is complete and no longer needs funding.

DP 4 - CACFP Present Law Adjustment - The legislature approved \$3,249,730 federal funds for the biennium for the Child and Adult Care Food Program (CACFP). This increase will be used for overtime, compensatory time payouts, to annualize out of state travel, and for benefits. This increased funding is estimated to provide an additional 1,968,625 meals during the 2005 biennium. The executive anticipates this level of growth in the program based upon historical increases and projected participation of for-profit childcare centers in the program approved recently by the United States Department of Agriculture (USDA). For-profit childcare centers are eligible for the program if at least 25 percent of the children enrolled at the center are eligible for free and reduced price meals.

DP 6 - IHSB Present Law Adjustment - The legislature approved \$200,000 state special revenue and \$8,176,263 federal funds for the Universal Systems Benefits Charge (USBC) state special revenue and the following federal grants: 1) U.S. Department of Energy (DOE) weatherization grant; 2) U.S. Department of Agriculture (USDA) Emergency Food Assistance Program (TEFAP) grant; 3) USDA Commodity Supplemental Food Program (CSFP); and 4) U. S. Department of Health and Human Services Low Income Energy Assistance Program (LIEAP). A decrease in federal funds for the Residential Energy Assistance Challenge (REACH) grant, which will be discontinued, is also included in this request. In addition to benefits, a portion of the funds in this request will be used to support increasing existing part-time employees to full time, overtime for truck drivers, temporary services, and out of state travel for the administration of these grants.

DP 8 - TANF Cash Benefits - The legislature approved an increase of \$7,333,296 federal funds for cash assistance benefit costs in this decision package and in a separate decision package reduced funding for cash assistance costs \$1.5 million each year and appropriated this \$3 million for childcare.

The TANF caseload has increased from just fewer than 4,500 cases to over 6,000 cases in a period of 15 months. TANF cash benefit expenditures have grown from a monthly low of about \$1.75 million in October of 2000 to over \$2.6 million in July 2002. During the recent recession, caseloads have increased but growth cannot be pinpointed to any one reason or region. Caseloads appear to be increasing faster in the higher populated areas of the state and there is significant recidivism caused by job loss, pregnancy, medical crisis, or a personal crisis. Common causes for requesting assistance include reduced income (lay-off, reduced hours, quit, fired); increases in basic needs; cost such as housing or reliable transportation; medical emergencies and pregnancy; a change in family stability due to separation, divorce, or domestic violence; or moving away from extended family.

DP 10 - Food Stamp Benefits and EBT - The legislature approved \$51,728 general fund and \$126,454,888 federal funds to annualize the costs of food stamp benefit, TANF cash assistance electronic benefit transfer (EBT), and to support anticipated increases in the food stamp caseload. The funding requested in this decision package was reduced by \$352,000 general fund for the biennium to reflect reductions in the Food Stamp Employment and Training program that were implemented in fiscal 2003. The Food Stamp Employment and Training program was reduced from five sites to three sites.

EBT was implemented as a pilot program in fiscal 2002 and allows food stamp and TANF clients to use an ATM-type card to pay for purchases and/or to get their TANF cash benefit. Food stamp EBT was mandated by the United States Department of Agriculture (USDA) to be implemented by October 2002. Montana maintained a food stamp issuance contract throughout most of fiscal 2002 while EBT was phased-in. With the new EBT system there is no longer a need to maintain this contract or mail food stamps to qualified clients. The funding supporting the food stamp issuance contract and the mailing costs in 2002 was \$509,416. It is estimated that the operational costs for maintaining the EBT system will be \$1,250,884 annually. The department intends to use the funding included in the 2002 base budget for the issuance contract and mailing costs to help fund the food stamp portion of operating costs for the EBT system.

The department projects food stamp benefit costs will increase due to changes in federal law and other factors. Between October 2002 and March 2003 food stamp cases increased by more than 10 percent, which is a larger increase than is normally experienced.

The department estimates that: 1) the selection of the federal option of a six-month reporting requirement will increase benefit costs \$2,880,000 per year; 2) a federal policy regarding offering transitional assistance will increase benefit costs \$1,348,200 per year; and 3) a change in the federal requirement regarding services to aliens will increase benefit costs by \$960,000 per year.

DP 11 - Refugee Resettlement - The legislature approved \$222,884 federal funds for the biennium to fund three different refugee resettlement grants. The grants are: 1) Cash/Medical/Administration (CMA) Grant; 2) the Refugee Social Services Grant; and 3) the Elderly Refugee grant.

The Cash/Medical/Administration (CMA) Grant provides funding for all administrative costs of the Refugee Resettlement Program, including salary and indirect expenditures. It also allows the state to provide medical interpretation services as necessary in a particular locale.

The Refugee Social Services Grant provides funding for direct services to provide individual support to assist refugees and their families resettling in Montana, and assist them in attaining an employment readiness position and then employment as quickly as possible.

The Elderly Refugee grant provides coordinated joint services to assist elderly refugees in becoming self-reliant. The elderly grant provides the resources for a contractor who provides culturally and linguistically appropriate services to the elderly refugees.

DP 12 - Food Stamp Program (FSNEP) - The legislature approved \$379,672 federal funds for the biennium to annualize the Food Stamp Nutrition Education Program (FSNEP) grant and expand the program to two additional counties. The goal of the FSNEP is to teach families how to wisely use and stretch their food stamp benefits in the most cost effective and nutritious way. FSNEP is an optional federal program operating in 31 Montana counties. The various counties receiving services provide the matching funds for this program. The addition of the two counties will increase the current total of food stamp recipients served by FSNEP from 35,105 to 46,601 in the first year of the biennium.

DP 14 - Reduction in Child Care Base Budget - The legislature approved a decrease in federal funds supporting childcare services by \$15,224,478 for the biennium because the federal funds will not be available in the 2005 biennium. The 2001 legislature appropriated a portion of the TANF block grant to be transferred to the Child Care Development Fund (CCDF) to be spent on childcare. Because of increases in the cash assistance caseload and because Montana no longer has a reserve of federal TANF funds, TANF funds are no longer available for transfer to the CCDF. This decision package reduces the base budget by the amount of expenditures in the base year, or \$7,612,239 federal funds, annually.

DP 15 - County OPA Base Budget Reduction - The legislature approved a funding reduction for county Offices of Public Assistance (OPA) of \$576,206 general fund and \$1,152,412 total funds. Personnel assigned to an OPA provide eligibility determination, case management, resource coordination, and implementation of services for: 1) Temporary Assistance for Needy Families (TANF) block grant; 2) food stamps; and 3) Medicaid. The department indicates that to achieve this savings a reduction in force of 12 -18 staff, decreasing 4 positions from full time to half time, and reducing the compensation of 6 staff will be necessary. Three county offices and one training center will be closed. This reduction was implemented during fiscal 2003. Additionally, the department indicated that \$114,051 of the general fund reduction in this decision package was counted as Temporary Assistance for Needy Families (TANF) maintenance of effort.

DP 199 - Abstinence Grants/Reorg - This decision package represents a reorganization of functions and moves funding for the Abstinence grant from the Director's Office to the Human and Community Services Division.

Program	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7 - DOE Weatherization Training Grant										
02	0.00	0	0	228,905	228,905	0.00	0	0	0	0
DP 9 - Housing Opportunities for Persons With AIDS-HOPWA										
02	0.00	0	0	738,909	738,909	0.00	0	0	0	0
DP 32 - Montana Abstinence Program										
02	1.00	0	0	42,264	42,264	1.00	0	0	42,126	42,126
DP 280 - FTE Reduction										
02	(1.00)	(12,430)	0	(12,430)	(24,860)	(1.00)	(12,398)	0	(12,398)	(24,796)
DP 655 - Personal Services Reduction										
02	0.00	(1,245,030)	0	0	(1,245,030)	0.00	(1,245,030)	0	0	(1,245,030)
DP 757 - Childcare Funding										
02	0.00	800,000	0	500,000	1,300,000	0.00	100,000	0	(500,000)	(400,000)
DP 6800 - HB 13 - Pay Plan										
02	0.00	51,713	0	73,409	125,122	0.00	221,862	0	312,763	534,625
<b>Total</b>	<b>0.00</b>	<b>(\$405,747)</b>	<b>\$0</b>	<b>\$1,571,057</b>	<b>\$1,165,310</b>	<b>0.00</b>	<b>(\$935,566)</b>	<b>\$0</b>	<b>(\$157,509)</b>	<b>(\$1,093,075)</b>

### New Proposals

DP 7 - DOE Weatherization Training Grant - The legislature approved \$228,905 federal funds for the Department of Energy (DOE) Weatherization Training grant. The DOE Weatherization Training grant is a five-year award that ends September 30, 2005. The department contracts with Montana State University Extension Service Housing Program (MSUES) to develop and improve professional standards and practices involved in the administration of the weatherization assistance program. This is accomplished by MSUES providing training and technical assistance to weatherization managers within the Denver DOE region.

DP 9 - Housing Opportunities for Persons With AIDS-HOPWA - The legislature approved \$738,909 federal funds in a biennial appropriation for the Housing Opportunities for Persons with AIDS (HOPWA) Grant received from the U.S. Department of Housing and Urban Development (HUD). The department contracts with the Montana State University Extension Service Housing Program for data collection and program assessment. The department also contracts with two agencies in Montana, one agency in South Dakota, and one agency in North Dakota to provide rental assistance, supportive services, and emergency assistance to persons living with AIDS in these states.

DP 32 - Montana Abstinence Program - The legislature added \$84,390 federal funds and funding for 1.00 FTE for the biennium for the Abstinence Program. Abstinence education is primary prevention for out-of-wedlock pregnancy, abortion, sexually transmitted disease, and the related psychological and social issues. The 1.00 FTE is to replace a current modified grade 16 position.

DP 280 - FTE Reduction - The legislature approved a reduction of \$24,828 general fund and \$49,656 total funds supporting a 1.00 FTE position that is vacant.

DP 655 - Personal Services Reduction - The legislature applied a further vacancy savings on general fund positions. The average for this agency is 2 percent general fund.

DP 757 - Childcare Funding - The legislature provided \$800,000 and \$100,000 of general fund in fiscal 2004 and fiscal 2005, respectively for childcare. This general fund will be used as match for federal childcare funds. The legislature also moved \$1.5 million per year of federal funds from TANF Cash Assistance benefits to childcare. This action increased childcare funding by \$2 million in fiscal 2004 and \$1 million in fiscal 2005. Because federal funds were moved within the division, this decision package shows the net effect on federal funds of a \$500,000 increase in fiscal year 2004 and \$500,000 decrease in fiscal 2005.

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund

this pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded

**Language**

"Item [Human and Community Services Division] includes \$31,769,235 of federal funds in fiscal year 2004 and \$31,769,235 of federal funds in fiscal year 2005 to fund cash assistance benefits provided under Montana's temporary assistance for needy families (TANF) grant. If caseloads decrease below this level of funding, resulting in a surplus of federal TANF funds, the following priorities may be funded:

- (1) Childcare subsidies;
- (2) A "rainy day" fund of up to \$4 million;
- (3) Training and education programs to achieve employment in higher wage jobs, including programs offered by tribal colleges; or
- (4) Supportive services needed for employment of TANF recipients."

"Item [Human and Community Services Division] includes a reduction in general fund of \$1,245,0303 in fiscal 2004 and \$1,245,030 in fiscal 2005 for the statewide FTE reduction. The agency may allocate this reduction in funding among programs when developing 2005 biennium operating plans."

"Funding in item [Childcare] may be used only to provide child-care subsidies. In an effort to stabilize, decrease, or decrease the rate of growth in the TANF cash assistance caseload, the legislature has appropriated \$25,600,000 for childcare services in fiscal year 2004. It is the legislature's intent that this funding is to be fully expended for childcare services in fiscal year 2004."

"Funds in item [Childcare] may be used only to provide childcare subsidies to low-income families, except a portion of this funding may be used to support childcare quality activities at the minimum level required to maintain Montana's eligibility for the federal childcare development fund grant."

The legislature adopted the following language for inclusion in the HB 2 narrative and Legislative Fiscal Report to outline legislative intent and expectation.

"When TANF benefit expenditure projections exceed a sustainable level for the 12-month period, benefits may be reduced to a level that would maintain solvency of the block grant. The trigger and process for benefit reduction is as follows:

- 1) An average monthly TANF expenditure amount will be calculated based on three consecutive months beginning July 1, 2003 of benefit expenditures and benefits will not be reduced prior to December 2003. This average will be projected over a 12-month period and if the projection exceeds the budgeted amount available for benefits, then;
- 2) The department will certify to the Office of Budget and Program Planning that benefit expenditures are projected to exceed the available grant.
- 3) The new benefit level will be set by using an average of actual benefit expenditures over a period of time that captures seasonal variations in the amount of benefits needed.
- 4) If during this biennium benefit levels are reduced under the circumstances above, this process and benefit levels will be revisited during the next legislative session."

"It is the legislature's intent that the Department of Public Health and Human Services maintain the philosophy embodied in Montana's welfare reform program and that the number of hours of work required of recipients and the activities that count toward work requirements be changed only if mandated by the federal government or necessary because mandated federal changes are imminent within six months of the date of implementation of any change in work hours required or change in definition of countable work activities."

"Due to the relationship of the availability of childcare subsidies and the ability of low-income families to seek and continue employment, thus avoiding the necessity of receiving cash assistance, the legislature in its prioritization of

funding programs appropriated sufficient state special revenue to the Department of Public Health and Human Services to maintain expenditures for childcare at the fiscal year 2002 level. It is the legislature's intent and expectation that during the 2005 biennium funding for childcare subsidies be maintained at the fiscal 2002 level."

### *Other Issues*

#### CCUBS

During the 2003 biennium the department developed and implemented the Childcare Under the Big Sky (CCUBS) system. This system was developed to replace and add functionality to the Montana Automated Childcare System (MACCS) and the Child and Adult Protective Services (CAPS) system. Prior to the development and implementation of CCUBS, MACCS performed financial and management functions for the childcare subsidy program, and CAPS acted as a childcare provider licensing system.

In addition to functions formerly provided by other systems, CCUBS incorporates new functions including contract management, fair hearing tracking, and web-based invoice entry and payment inquiry for childcare providers. Completion of additional functionality is underway. The department obtained the core system for CCUBS from a contractor at no cost. The Montana specific portion of the system cost \$1,775,000 and was funded by federal childcare discretionary funds.

#### Temporary Assistance for Needy Families (TANF)

##### **Background**

The federal Temporary Assistance for Needy Families (TANF) block grant supports public assistance programs for needy families. TANF was created in 1996 by the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA). This federal act is commonly known as "welfare reform". TANF replaced the program formerly known as the Aid to Families with Dependent Children (AFDC).

Under the TANF program, states receive a set level of federal funding to support public assistance programs. Montana's annual federal grant is about \$45 million. In order to receive the federal funds a state must continue to expend state and local resources at a level known as the "maintenance of effort" or "MOE". Montana's annual MOE, at 75 percent of historical expenditures, is about \$14.8 million. In order to receive federal funds, states must also meet other federal requirements including: mandated work participation rates; fulfilling data reporting requirements; limiting beneficiaries to a maximum of 60 months of benefits in their lifetime; and beneficiary assignment of child support to the state.

TANF funds must be expended to achieve one of four purposes of the program as specified in federal law: 1) to provide assistance to needy families; 2) to end dependency of needy parents by promoting job preparation, work, and marriage; 3) to prevent and reduce out of wedlock pregnancies; or 4) to encourage the formation and maintenance of two-parent families.

##### *TANF Reauthorization*

The original authorization of the TANF block grant by Congress expired September 30, 2002. Reauthorization of the grant has been pending in Congress. Congress will probably take up reauthorization of the block grant when it reconvenes. While the various bills introduced to reauthorize TANF vary significantly, they do contain some common threads. Most versions of TANF reauthorization include:

- Increased hours of work participation for recipients
- Increased levels (percentages of caseload) that must be participating in work activities
- A narrowing of the definition of activities that meet the federal definition of work, including limits on the number of hours of job search activities that may be counted, and months of training activities and chemical dependency treatment that may be counted

- Discontinuation of waivers - Specifically, Montana's waiver that allows for a broader definition of activities that meet the definition of work will probably be ended

Due to concerns regarding the potential impact of TANF reauthorization on Montana's program, the legislature adopted the following language for inclusion in the HB 2 narrative and Legislative Fiscal Report to outline legislative intent and expectation:

"It is the legislature's intent that the Department of Public Health and Human Services maintain the philosophy embodied in Montana's welfare reform program and that the number of hours of work required of recipients and the activities that count toward work requirements be changed only if mandated by the federal government or necessary because mandated federal changes are imminent within six months of the date of implementation of any change in work hours required or change in definition of countable work activities."

### *Childcare*

#### **Background**

The Childcare Development Fund (CCDF) was created under a portion of PRWORA to provide childcare services to low-income parents and parents receiving TANF to enable them to work or participate in educational and training programs. PRWORA repealed old welfare related childcare programs that existed under the Social Security Act and replaced them with mandatory and matching funds. Funds that states previously received under the Childcare Development Block Grant became known as the discretionary fund portion of CCDF.

The mandatory funds are a stream of federal funds that states receive if they fulfill the maintenance of effort (MOE) (that is, if they continue to expend state funds for childcare services at the historical level based upon a time period specified in federal regulations). For Montana, this CCDF MOE is \$1.3 million annually.

Matching funds are funds that are available to states based upon the federal medical assistance participation rate (FMAP). In Montana this matching ratio is about 28 percent general fund and 72 percent federal funds (often the Medicaid matching ratio for Montana is referred to as a 30/70 matching rate).

Discretionary funds are 100 percent federal funds that are allocated to states based upon a formula. Also, if a state transfers funds from its TANF grant to the CCDF, the TANF funds become discretionary funds.

#### **Childcare Services in Montana**

The majority of childcare funds are expended to provide subsidies to low-income families. No more than five percent of the grant may be expended for administrative costs, and four percent must be expended for quality, health, and safety activities. Montana currently provides services to families at or below 150 percent of the federal poverty level and employs a sliding fee scale, as required by federal law, to determine the parent's share of the costs. As the family income approaches 150 percent of the federal poverty level, their share of the costs increases. Once the family income exceeds 150 percent of the federal poverty level, the family is ineligible for the program

Currently, the administrative rules in Montana guarantee childcare subsidies to families receiving cash assistance and families with disabled children, if the parents are working and their income is below 150 percent of the federal poverty level. According to federal regulations, if appropriate childcare is not provided to TANF cash assistance families, the family is not required to participate in activities designed to help them achieve self-sufficiency.

All other families are prioritized by income level with the lowest income families having the highest priority. Single parent families not on cash assistance must be working at least 60 hours per month (except certain teen parents) and two parent families must work at least 120 hours per month to qualify for childcare assistance. Full time students must work at least 40 hours per month if a single parent and 80 hours per month if the family is a two-parent family.

Current state reimbursement rates (from \$11.25 per day to \$28.50 per day), which are established based upon local market surveys, vary by type of provider, location of the provider, and age of the child. This equates to monthly costs

between \$180 and \$456 per child. If employed at a job paying \$7 per hour, this family's gross monthly income would be \$1,120. Thus, childcare costs for one child would equate to 29 percent of the family's gross monthly income in this situation.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	329.75	14.50	(6.30)	337.95	17.00	(6.30)	340.45	340.45
Personal Services	12,955,382	1,194,464	(132,780)	14,017,066	1,301,486	176,657	14,433,525	28,450,591
Operating Expenses	3,471,220	404,482	0	3,875,702	485,246	0	3,956,466	7,832,168
Equipment	22,955	0	0	22,955	0	0	22,955	45,910
Capital Outlay	28,398	0	0	28,398	0	0	28,398	56,796
Grants	3,712,927	0	(250,000)	3,462,927	0	(250,000)	3,462,927	6,925,854
Benefits & Claims	24,962,507	3,207,827	(551,296)	27,619,038	4,280,042	(581,330)	28,661,219	56,280,257
Transfers	0	0	0	0	0	0	0	0
Debt Service	12,649	0	0	12,649	0	0	12,649	25,298
<b>Total Costs</b>	<b>\$45,166,038</b>	<b>\$4,806,773</b>	<b>(\$934,076)</b>	<b>\$49,038,735</b>	<b>\$6,066,774</b>	<b>(\$654,673)</b>	<b>\$50,578,139</b>	<b>\$99,616,874</b>
General Fund	21,330,764	1,521,274	(2,959,729)	19,892,309	1,636,932	(2,681,578)	20,286,118	40,178,427
State/Other Special	1,474,092	196,200	(2,742)	1,667,550	523,200	(2,742)	1,994,550	3,662,100
Federal Special	22,361,182	3,089,299	2,028,395	27,478,876	3,906,642	2,029,647	28,297,471	55,776,347
<b>Total Funds</b>	<b>\$45,166,038</b>	<b>\$4,806,773</b>	<b>(\$934,076)</b>	<b>\$49,038,735</b>	<b>\$6,066,774</b>	<b>(\$654,673)</b>	<b>\$50,578,139</b>	<b>\$99,616,874</b>

**Program Description**

The Child and Family Services Division (CFSD) administers child protective services, child abuse and neglect services, prevention services, domestic violence grants, and other programs designed to keep children safe and families strong. CFSD structure includes five regional offices that are responsible for program administration in their geographic area. These regional offices are advised by Local Family Services Advisory Councils, which serve as the link between local communities and the department. CFSD is the primary user of the Child and Adult Protective Services (CAPS) computer system.

**Program Narrative**

<b>Child and Family Services Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>○ 2005 biennium general fund support for the division decreased 7 percent compared to the 2003 biennium while total funds increased 7 percent compared to the 2003 biennium</li> <li>○ Funding was eliminated for the Big Brothers Big Sisters program and reductions were made in staff</li> <li>○ Funding for Child Protective Services child care is included in childcare funding in the Human and Community Services Division</li> <li>○ Subsidized adoption caseload growth is budgeted at about 10 percent per year while foster care costs are projected to remain constant at the fiscal 2002 level</li> <li>○ Staffing was added to facilitate the movement of federal Title IV-E eligibility from the Human and Community Services Division</li> <li>○ Staffing was added to increase federal social security benefit collection on behalf of foster care children</li> </ul>

The figure on the following page summarizes by funding source the various benefit and grant programs administered by this division. As illustrated in the table, of the division's budgeted benefits and claims, 60 percent is expended for foster care and 30 percent is expended for subsidized adoptions. Contracts with tribal governments for case management of federal Title IV-E eligible cases account for almost 50 percent of the grants budgeted in the division. Domestic Violence prevention services are the next largest expenditure of grant funds and account for almost 20 percent of the division's grant budget.

Program	Fiscal 2002 Base				Fiscal 2004 Appropriation				Fiscal 2005 Appropriation				Percent Total
	General Fund	State Spec. Rev	Federal Funds	Total Funds	General Fund	State Spec. Rev	Federal Funds	Total Funds	General Fund	State Spec. Rev	Federal Funds	Total Funds	
<b>Benefits &amp; Claims</b>													
Foster Care	\$ 7,061,001	\$ 1,284,937	\$ 9,022,178	\$ 17,368,116	\$ 7,392,435	\$ 1,283,564	\$ 8,399,098	\$ 17,075,097	\$ 7,427,176	\$ 1,283,564	\$ 8,364,357	\$ 17,075,097	59.6%
Subsidized Adopt.	2,511,800	-	2,766,488	5,278,288	3,566,413	-	3,926,051	7,492,464	4,080,702	-	4,492,201	8,572,903	29.9%
Centralized Intake	2,765	-	-	2,765	2,765	-	-	2,765	2,765	-	-	2,765	0.0%
Training Bureau	34	-	-	34	34	-	-	34	34	-	-	34	0.0%
Big Brothers/Sisters	183,264	-	-	183,264	-	-	-	-	-	-	-	-	0.0%
Children's Trust Fund	1,219	-	2,784	4,003	1,219	-	2,784	4,003	1,219	-	2,784	4,003	0.0%
Various Federal	-	-	97,223	97,223	-	-	1,152,223	1,152,223	-	-	1,152,233	1,152,233	4.0%
CPS Childcare	75,013	-	-	75,013	-	-	-	-	-	-	-	-	0.0%
Domestic Violence	1,649	1,831	3,863	7,342	1,649	1,831	3,863	7,342	1,649	1,831	3,863	7,342	0.0%
In-home & Reunification	1,302,070	-	546,084	1,848,154	1,302,070	-	546,084	1,848,154	1,302,070	-	546,084	1,848,154	6.4%
Regional Office Admin	(85,509)	-	(61,009)	(146,518)	(85,509)	-	(61,009)	(146,518)	(85,509)	-	(61,009)	(146,518)	-0.5%
Central Office	108,627	3,720	132,476	244,823	81,407	2,788	99,279	183,474	64,432	2,206	78,577	145,216	0.5%
<b>Total Benefits &amp; Claims</b>	<b>\$ 11,161,933</b>	<b>\$ 1,290,487</b>	<b>\$ 12,510,086</b>	<b>\$ 24,962,507</b>	<b>\$ 12,262,483</b>	<b>\$ 1,288,182</b>	<b>\$ 14,068,373</b>	<b>\$ 27,619,038</b>	<b>\$ 12,794,538</b>	<b>\$ 1,287,601</b>	<b>\$ 14,579,090</b>	<b>\$ 28,661,229</b>	<b>100.0%</b>
<b>Grants</b>													
Tribal IV-E Contracts	\$ 327,421	\$ -	\$ 1,303,415	\$ 1,630,836	\$ 327,421	\$ -	\$ 1,303,415	\$ 1,630,836	\$ 327,421	\$ -	\$ 1,303,415	\$ 1,630,836	47.1%
Training Bureau	104,874	1,464	527,416	633,754	104,874	1,464	527,416	633,754	104,874	1,464	527,416	633,754	18.3%
Children's Trust Fund	16,258	-	37,126	53,384	16,258	-	37,126	53,384	16,258	-	37,126	53,384	1.5%
Various Federal	-	-	372,567	372,567	-	-	372,567	372,567	-	-	372,567	372,567	10.8%
CPS Childcare	250,000	-	-	250,000	-	-	-	-	-	-	-	-	0.0%
Domestic Violence	125,825	139,684	294,743	560,253	125,825	139,684	294,743	560,253	125,825	139,684	294,743	560,253	16.2%
In-home & Reunification	149,453	-	62,680	212,133	149,453	-	62,680	212,133	149,453	-	62,680	212,133	6.1%
<b>Total Grants</b>	<b>\$ 973,831</b>	<b>\$ 141,148</b>	<b>\$ 2,597,947</b>	<b>\$ 3,712,927</b>	<b>\$ 723,831</b>	<b>\$ 141,148</b>	<b>\$ 2,597,947</b>	<b>\$ 3,462,927</b>	<b>\$ 723,831</b>	<b>\$ 141,148</b>	<b>\$ 2,597,947</b>	<b>\$ 3,462,927</b>	<b>100.0%</b>

*Program Reductions and Eliminations*

The legislature approved the elimination of state support for the Big Brothers Big Sisters Program resulting in a general fund reduction of \$366,528 for the biennium. Big Brothers Big Sisters is a statewide organization that matches children with an adult volunteer big brother or big sister and provided services to about 350 children each month with the funding received from the state.

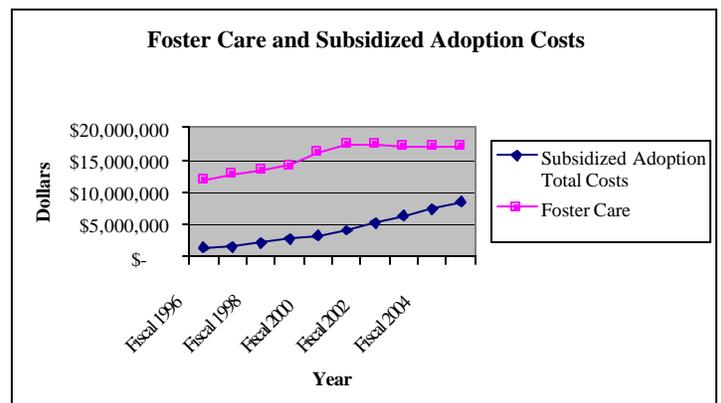
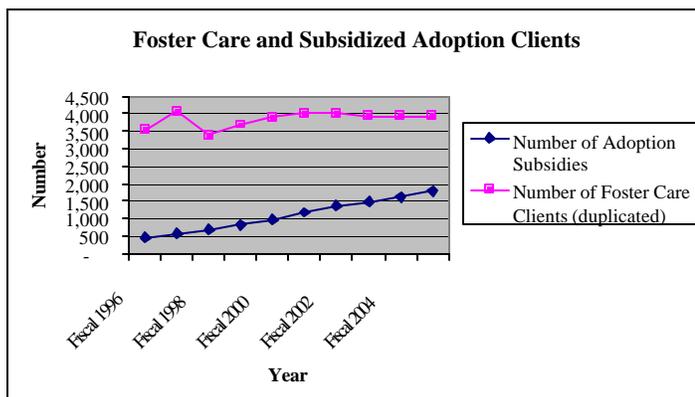
While the budget for the CFSD includes elimination of funding for Child Protective Services (CPS) daycare (\$650,026 general fund for the biennium), the legislature appropriated sufficient general fund and state special revenue in SB 485, revising the allocation of tobacco settlement proceeds, to the Human and Community Services Division (HCSO) to maintain the CPS daycare program. Department staff indicated that CPS daycare funds could either be transferred from the HCSO to the CFSD or be administered by the HCSO, but that either option would result in the continuation of services to the consumers historically served by the CPS daycare program. CPS daycare funds are used to provide childcare services to families involved with child protective services and as match for federal childcare funds. These families are not eligible for other childcare subsidy programs. Additional discussion of childcare funding is included in the HCSO narrative.

*Foster Care and Subsidized Adoption Caseload Changes*

The legislature approved funding adjustments necessary to support continuation of the foster care caseload at the fiscal 2002 level and an increase in the subsidized adoption caseload of about 10 percent per year. General fund support for foster care increases 4.8 percent and federal funds decrease 6.8 percent. The decrease in federal funds is due to offsetting increases and decreases in federal funding sources. Increases in federal Title IV-E funds are offset by decreases in federal TANF funds available to support foster care. Use of federal TANF funds is discussed in the HCSO program narrative.

2005 biennium general fund and federal funds supporting subsidized adoption increase about 50 percent when compared to the fiscal 2002 base times two. Adoption subsidies are provided to families that adopt special needs children as defined in Montana statute and may include a subsidy payment and/or Medicaid coverage for health care needs. The subsidized adoption caseload continues to increase. However, the rate of increase projected for the 2005 biennium is only about 10 percent, which is significantly lower than the 20 percent average annual rate of change that occurred between 1996 and 2002. The department believes the rate of increase in subsidized adoption is slowing and reflects the division being at maximum capacity on the number of adoptions that can be finalized and elimination of a backlog of pending adoptions.

The figure below on the left displays the historical change in the number of foster care and subsidized adoption clients. The figure below on the right displays the historical costs of foster care and subsidized adoption.



*Refinancing Proposals*

The legislature approved two proposals that decrease general fund by about \$3 million per year and increase state special revenue and federal funds supporting foster care services. The legislature approved the addition of 2.0 FTE that will be responsible for pursuing social security benefits on behalf of children in care. These benefits are used to offset the costs of care for the child. The department indicated that currently about 10 percent of the children in care receive social security benefits and that other states such as Washington have been able to recover social security benefits for as much as 20 percent of their foster care caseload.

The legislature also approved adding 6.00 FTE in fiscal 2004 and an additional 2.00 FTE in fiscal 2005 (total of 8.00 FTE) to complete eligibility determination for assistance under Title IV-E of the Social Security Act. Currently, staff of the Human and Community Services Division (HCSO) completes this function. Prior to welfare reform, eligibility for Title IV-E was similar to public assistance eligibility. However, when welfare reform was implemented, federal law froze the eligibility criteria for Title IV-E at the same criteria the state was using on July 16, 1996. While a small amount of Title IV-E funding may be used in the HCSO to support eligibility determination functions, it is not a significant funding source for the HCSO division. Title IV-E is a significant funding source for CFSD, providing more than 22 percent of the division's funding during the fiscal 2002 base year and predicted to provide more than 33 percent of the division's funding in the 2005 biennium. This change did not include a reduction of the level of staff in the HCSO. Title IV-E eligibility determination is a function currently divided among public assistance staff statewide.

Additional information on refinancing, including refinancing efforts being undertaken by this and other divisions in the department, is included in the agency narrative.

**Funding**

The following table shows program funding, by source, for the base year and for the 2005 biennium as approved by the legislature.

<b>Program Funding Table</b>							
Child & Family Services Div							
<u>Program Funding</u>	Base	% of Base	Budget	% of Budget	Budget	% of Budget	
	<u>Fiscal 2002</u>	<u>Fiscal 2002</u>	<u>Fiscal 2004</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2005</u>	
01100 General Fund	\$ 21,330,764	47.2%	\$ 19,892,309	40.6%	\$ 20,286,118	40.1%	
02089 Child Abuse & Neglect Program	18,989	0.0%	18,989	0.0%	18,989	0.0%	
02209 Third Party Contributions-F.C.	1,286,154	2.8%	1,479,612	3.0%	1,806,612	3.6%	
02473 Assault Intervention & Trtmnt	141,701	0.3%	141,701	0.3%	141,701	0.3%	
02483 Adoption Services / Sa	25,088	0.1%	25,088	0.1%	25,088	0.0%	
02496 Family Preservation Conference	2,160	0.0%	2,160	0.0%	2,160	0.0%	
03109 Tanf Benefits	2,650,000	5.9%	2,650,000	5.4%	2,650,000	5.2%	
03224 Access & Visitation Grt 93.597	89,414	0.2%	89,414	0.2%	89,414	0.2%	
03522 93.556 - Family Preservation	682,803	1.5%	713,866	1.5%	713,947	1.4%	
03526 93.643 - Child Justice	144,341	0.3%	144,013	0.3%	144,013	0.3%	
03527 93.645 - Iv-B Cws	271,396	0.6%	271,396	0.6%	271,396	0.5%	
03528 93.656 - Mt Crisis Nursey Proj	-	-	15,763	0.0%	15,763	0.0%	
03530 93.658 - Iv-E Fost Care & Adp	7,077,646	15.7%	11,861,745	24.2%	11,903,264	23.5%	
03531 6901 Subsidized Adopt 93.659	3,004,003	6.7%	4,163,566	8.5%	4,729,716	9.4%	
03532 93.669 - Child Abuse	82,705	0.2%	84,134	0.2%	84,134	0.2%	
03533 93.671 - Domestic Violence	299,000	0.7%	299,000	0.6%	299,000	0.6%	
03534 93.672 - Child Abuse Challenge	176,827	0.4%	176,828	0.4%	176,828	0.3%	
03536 93.674 - Iv-E Independent Livi	298,768	0.7%	298,768	0.6%	298,768	0.6%	
03579 93.667 - Ssbj - Benefits	1,355,356	3.0%	-	-	-	-	
03593 03 Indirect Activity Prog 03	6,078,849	13.5%	6,560,312	13.4%	6,771,157	13.4%	
03964 Adoption Incentive Funds	150,074	0.3%	150,071	0.3%	150,071	0.3%	
Grand Total	\$ 45,166,038	100.0%	\$ 49,038,735	100.0%	\$ 50,578,139	100.0%	

The CSFD is funded with general fund (40 percent), state special revenue (4 percent), and federal funds (56 percent). The general fund provides matching funds for federal programs. The most significant source of state special revenue is third party contributions such as social security, child support, parental contributions, and other sources of revenue that are collected and used to offset the costs of foster care services for the particular child who is the recipient of the funds.

Funding for foster care and subsidized adoption provided under Title IV-E of the Social Security Act provides more than one-third of the division's funding and is the largest single source of funding for the division other than general fund. The legislature approved a request for additional staffing that the department believes will enable them to increase the recovery of third party contributions from social security and federal funds under the Title IV-E program. The general fund is decreased to reflect the increase in federal funds and state special revenue that is anticipated. The most significant of these funding adjustments is a \$3 million reduction in general fund offset by a like amount of federal funds due to refinancing of eligible costs with federal Title IV-E funds.

**Biennial Comparison**

The adjacent figure summarizes the 2003 biennium funding for the division compared to the 2005 biennium. General fund support for this division decreases 7 percent when the two biennia are compared. Total funding for the division increases 7 percent between the two biennia, primarily due to increases in federal funds due to refinancing efforts. More than 56 percent of the division's budget supports benefit and claim payments made on behalf of individuals and about 28 percent of the division's budget supports staff that are located throughout the state.

2003 Biennium Compared to 2005 Biennium Child and Family Services Division					
Budget Item/Fund	2003 Biennium	2005 Biennium	Percent of Total	Change	Percent Incr/Decr
FTE	344.25	340.45		(3.80)	
Personal Services	\$ 26,117,637	\$ 28,450,591	28.6%	\$ 2,332,954	8.9%
Operating	7,456,987	7,832,168	7.9%	375,181	5.0%
Equipment	33,513	45,910	0.0%	12,397	37.0%
Capital Outlay	28,398	56,796	0.1%	28,398	100.0%
Grants	8,666,265	6,925,854	7.0%	(1,740,411)	-20.1%
Benefits/Claims	50,499,610	56,280,257	56.5%	5,780,647	11.4%
Debt Service	101,799	25,298	0.0%	(76,501)	-75.1%
Total Costs	<u>\$ 92,904,209</u>	<u>\$ 99,616,874</u>	<u>100.0%</u>	<u>\$ 6,712,665</u>	<u>7.2%</u>
General Fund	\$ 43,162,557	\$ 40,178,427	40.3%	\$(2,984,130)	-6.9%
State Special	2,874,837 #	3,662,100	3.7%	787,263	27.4%
Federal Funds	46,866,815	55,776,347	56.0%	8,909,532	19.0%
Total Funds	<u>\$ 92,904,209</u>	<u>\$ 99,616,874</u>	<u>100.0%</u>	<u>\$ 6,712,665</u>	<u>7.2%</u>
Percent Increase				7.2%	

	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					1,082,700					1,092,805
Vacancy Savings					(561,542)					(561,913)
Inflation/Deflation					724					16,287
Fixed Costs					31,076					34,181
<b>Total Statewide Present Law Adjustments</b>					<b>\$552,958</b>					<b>\$581,360</b>
DP 16 - Convert Modified FTEs to Permanent FTEs	7.00	218,150	0	117,465	335,615	7.00	218,150	0	117,465	335,615
DP 17 - Increased Federal Grants	0.00	0	0	1,055,000	1,055,000	0.00	0	0	1,055,000	1,055,000
DP 18 - Subsidized Adoption Caseload Increase	0.00	1,054,613	0	1,159,563	2,214,176	0.00	1,568,902	0	1,725,713	3,294,615
DP 25 - SSI Specialists	1.50	(42,720)	196,200	(78,480)	75,000	2.00	(213,920)	523,200	(209,280)	100,000
DP 26 - IV-E Eligibility	6.00	(190,122)	0	430,122	240,000	8.00	(458,885)	0	778,885	320,000
DP 27 - Rent Increases - Inflation	0.00	183,713	0	150,311	334,024	0.00	209,101	0	171,083	380,184
<b>Total Other Present Law Adjustments</b>	<b>14.50</b>	<b>\$1,223,634</b>	<b>\$196,200</b>	<b>\$2,833,981</b>	<b>\$4,253,815</b>	<b>17.00</b>	<b>\$1,323,348</b>	<b>\$523,200</b>	<b>\$3,638,866</b>	<b>\$5,485,414</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$4,806,773</b>					<b>\$6,066,774</b>

**Present Law Adjustments**

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

DP 16 - Convert Modified FTEs to Permanent FTEs - The legislature approved \$436,300 general fund and \$671,230 total funds for the biennium to support 7.00 FTE grade 15 positions as permanent positions. Because these positions were considered modified FTE, they were not included in the fiscal 2002 base budget. These positions have been supported by funds appropriated for contracted in-home services. The division indicates that it is more cost and service effective to utilize employees to provide these services rather than contractors. Four of these positions provide in-home services and three provide family group decision-making services.

DP 17 - Increased Federal Grants - The legislature approved \$2,110,000 federal funds for the biennium to support increases in federal grants including Domestic Violence, Safe and Stable Families (Title IV-B, Subpart 2), Adoption Incentive, Children's Justice Act, Child Abuse Prevention and Treatment Act, and Community Based Challenge grants.

DP 18 - Subsidized Adoption Caseload Increase - The legislature provided \$2,623,515 general fund and \$2,885,276 federal funds for the biennium to support increases in the subsidized adoption caseload. The department projects the caseload will increase about 10 percent per year. The average cost per client also increases because as older, lower cost subsidy agreements expire, newer higher cost subsidy agreements replace the older agreements. The funding for Subsidized Adoption is 48 percent general fund and 52 percent federal funds (Title IV-E).

DP 25 - SSI Specialists - The legislature approved \$175,000 total funds, including decreases of \$256,640 general fund and \$287,760 federal funds offset by an increase of \$719,400 state special revenue, to fund 2.00 FTE, grade 14 Supplemental Security Income (SSI) Specialists. The division proposes adding 1.50 FTE in fiscal 2004 and increasing from 1.50 to 2.00 FTE in fiscal 2005. This proposal assumes the new FTEs will be hired on October 1, 2003.

SSI specialists would be tasked with aggressively pursuing social security assistance for children meeting the social security criteria. Social security payments received would be used to offset the costs of providing services to these children. The division indicates that Washington state uses this concept and is one of four states that receive social security payments for more than 20 percent of the children in care. Montana currently receives social security payments for less than 10 percent of the children in care. In addition to personal services costs, this decision package includes funding for \$8,658 and \$14,594 of operating costs in fiscal 2004 and 2005, respectively. The funds for operating costs would be used for rent, computers, office supplies, telephone, travel (to Washington state for training and technical assistance), and other operating costs associated with performance of this function.

DP 26 - IV-E Eligibility - The legislature provided \$560,000 total funds for the biennium, comprised of a decrease of \$649,007 general fund offset by an increase of \$1,209,007 federal funds, for 6.00 FTE in fiscal 2004 and an additional 2.00 FTE (a total of 8.00 FTE, one grade 16 and seven grade 14 positions) in fiscal 2005 to move Title IV-E eligibility determination functions from the Human and Community Services Division (HCSD) to the Child and Family Services Division (CFSD). CFSD believes that doing so will result in more aggressive pursuit of Title IV-E eligibility resulting in a higher percentage of cases becoming eligible for federal Title IV-E funding. This decision package uses the general fund savings realized due to more cases becoming eligible for federal Title IV-E funding to support the positions.

DP 27 - Rent Increases - Inflation - The legislature provided \$392,814 general fund and \$714,208 total funds for the biennium to fund increases in rental costs at current office locations throughout the state. Increases in rent are expected due to inflation and changes in office location. Many of the lease agreements for office space include yearly inflationary increases and are multi-year contracts. The largest rent increase is in the Billings regional office. Because the division had to move to a new location, the rent increased from \$62,485 to \$251,992 per year. Department staff indicated that the previous office location in Billings was unsuitable due to rodents, basement parent-child visitations rooms that were dark and dingy and overcrowding of staff which made confidential discussions difficult. Additionally, since CFSD has moved the old location is now being used for police and fire training exercises.

New Proposals										
Program	FTE	-----Fiscal 2004-----				-----Fiscal 2005-----				Total Funds
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	
DP 28 - Refinancing - Federal Funds										
03	0.00	(2,756,785)	0	2,756,785	0	0.00	(2,655,135)	0	2,655,135	0
DP 271 - Base Adjustment to BBBS										
03	0.00	(183,264)	0	0	(183,264)	0.00	(183,264)	0	0	(183,264)
DP 272 - Base Adjustment to Central Office										
03	0.00	0	0	0	0	0.00	(30,034)	0	0	(30,034)
DP 273 - Base Adjustment for CPS Daycare										
03	0.00	(325,013)	0	0	(325,013)	0.00	(325,013)	0	0	(325,013)
DP 275 - Base Adjustment for Foster Care										
03	0.00	383,587	0	(676,606)	(293,019)	0.00	418,398	0	(711,417)	(293,019)
DP 281 - FTE Reduction										
03	(6.30)	(130,930)	(2,742)	(94,207)	(227,879)	(6.30)	(130,930)	(2,742)	(93,611)	(227,283)
DP 6800 - HB 13 - Pay Plan										
03	0.00	52,676	0	42,423	95,099	0.00	224,400	0	179,540	403,940
<b>Total</b>	<b>(6.30)</b>	<b>(\$2,959,729)</b>	<b>(\$2,742)</b>	<b>\$2,028,395</b>	<b>(\$934,076)</b>	<b>(6.30)</b>	<b>(\$2,681,578)</b>	<b>(\$2,742)</b>	<b>\$2,029,647</b>	<b>(\$654,673)</b>

**New Proposals**

DP 28 - Refinancing - Federal Funds - The legislature reduced general fund by \$5,411,920 for the biennium and increased federal funds a like amount to reflect savings of general fund that is expected due to refinancing efforts of the division. Increases in Title IV-E revenues will be accomplished using several different methodologies, including a retroactive review of cases to determine which cases can be brought into compliance with Title IV-E requirements and thus, be funded from this source. Although the funding increase has been included in the budget entirely as Title IV-E federal funds, the division also may implement Medicaid funded Targeted Case Management (TCM) for non-Title IV-E cases, which will increase federal Medicaid revenue.

DP 271 - Base Adjustment to BBBS - The legislature approved elimination of \$366,528 general fund for the Big Brothers Big Sisters (BBBS) program from the 2005 biennium budget. The CFSD had nine contracts with BBBS in the most populous counties of Montana. BBBS served approximately 350 children each month.

DP 272 - Base Adjustment to Central Office - The legislature reduced central office funding for in-home services by \$30,034 general fund for the 2005 biennium.

DP 273 - Base Adjustment for CPS Daycare - The Child Protective Services (CPS) daycare budget is eliminated saving \$650,026 general fund for the 2005 biennium. Funding to continue these services was included with childcare funding in the Human and Community Services Division. The department indicated that they would allocate the childcare funding between the two divisions. These funds are used to provide childcare services to families involved with the child protective services system. Also, the Human and Community Services Division utilize these funds as matching funds for the federal Child Care Development Fund Block Grant. If this program is eliminated, it results in a loss of more than \$1.7 million in federal funds and an estimated 230 childcare slots per the department.

DP 275 - Base Adjustment for Foster Care - The legislature approved a general fund increase of \$801,985 and a federal funds decrease of \$1,388,023 to adjust the funding for foster care costs for the 2005 biennium. No caseload growth is included. Funding adjustments were necessary due to the unavailability of federal TANF funds to be transferred to Title XX, the Social Services Block Grant to support foster care.

DP 281 - FTE Reduction - The legislature approved the reduction in funding for 6.30 FTE for a savings of \$261,860 general fund, \$5,484 state special revenue and \$187,818 federal funds for the biennium. The positions to be eliminated are: Administrative Support (2.30 FTE), Administrative Officer (1.00 FTE), Attorney (1.00 FTE), Case Aide (1.00 FTE) and Program Specialist (1.00 FTE).

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund this pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded

### **Language**

Item [Child and Family Services Division] includes \$77,641 in general fund money in fiscal year 2004 and \$77,641 in general fund money in fiscal year 2005 that may be used only to support the provision of Domestic Violence Prevention Services."

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	38.00	0.00	5.75	43.75	0.00	5.75	43.75	43.75
Personal Services	2,094,167	(276,983)	252,714	2,069,898	(274,794)	294,615	2,113,988	4,183,886
Operating Expenses	431,155	(89,587)	467,413	808,981	(86,458)	461,163	805,860	1,614,841
Equipment	0	0	0	0	0	0	0	0
Grants	22,592	(22,592)	643,197	643,197	(22,592)	643,867	643,867	1,287,064
Benefits & Claims	0	0	4,050,000	4,050,000	0	4,050,000	4,050,000	8,100,000
Transfers	0	0	0	0	0	0	0	0
Debt Service	15,886	0	0	15,886	0	0	15,886	31,772
<b>Total Costs</b>	<b>\$2,563,800</b>	<b>(\$389,162)</b>	<b>\$5,413,324</b>	<b>\$7,587,962</b>	<b>(\$383,844)</b>	<b>\$5,449,645</b>	<b>\$7,629,601</b>	<b>\$15,217,563</b>
General Fund	1,152,946	(118,554)	5,519	1,039,911	(115,846)	23,512	1,060,612	2,100,523
State/Other Special	246,568	(23,802)	1,109	223,875	(23,430)	4,707	227,845	451,720
Federal Special	1,164,286	(246,806)	5,406,696	6,324,176	(244,568)	5,421,426	6,341,144	12,665,320
NonExpendable Trust	0	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$2,563,800</b>	<b>(\$389,162)</b>	<b>\$5,413,324</b>	<b>\$7,587,962</b>	<b>(\$383,844)</b>	<b>\$5,449,645</b>	<b>\$7,629,601</b>	<b>\$15,217,563</b>

**Program Description**

The Director's Office provides overall policy development for the department. Included in the Director's Office functions are legal affairs, personnel services, public information, refinancing, and state and local relations. The Board of Health and Human Services Appeals, the Public Health and Human Services Statewide Advisory Council, and the Montana Health Care Advisory Council are administratively attached.

**Program Narrative**

<b>Director's Office Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>○ 2005 biennium appropriation more than double 2003 biennium</li> <li>○ General fund support lower in 2005 biennium than in 2003 biennium</li> <li>○ \$10 million in federal appropriation authority for refinancing activities allowed due to passage and approval of HB 722</li> <li>○ 5.75 new FTE – 5.00 are one time only for refinancing unit; 0.75 is for VISTA volunteer program</li> <li>○ Language to encourage department to avoid using emergency rule for budget reductions</li> </ul>

The Director's Office annual appropriation for the 2005 biennium nearly triples compared to the fiscal 2002 base budget expenditures, due solely to growth in federal funds (about \$10.3 million over the biennium). General fund as a percent of program funding declines from 45 percent of fiscal 2002 base budget expenditures to 14 percent of the fiscal 2005 appropriation. State special revenue appropriations for the 2005 biennium are about \$41,000 lower than comparable base budget expenditures.

The most significant changes in the 2005 biennium appropriation compared to the base budget are:

- \$10.1 million in federal authority, including one-time-only funding for 5.00 FTE for the refinancing unit, to draw on if it finds ways to offset general fund by increasing federal funding;
- 0.75 FTE and about \$687,700 total funds over the biennium to staff the prevention coordination and resource function; and
- statewide present law adjustments that reduce appropriations by \$407,900

The Director's Office appropriation increases about \$5 million above the base budget in each year of the 2005 biennium, while the general fund appropriation declines about \$113,000 in fiscal 2004 and \$92,000 in fiscal 2005 compared to the base budget funding. The increase is by the legislative initiative to consolidate \$5 million in federal funds requested in the Executive Budget for refinancing initiatives in the Refinancing Unit.

The increases are partially offset by negative statewide present law adjustments (\$407,000), due to transfer of tobacco control, the Montana Telecommunications Access Program, and abstinence education from the Director's Office to other divisions. Since these functions are reflected in the fiscal 2002 base budget expenditures for the Director's Office, the statewide present law adjustments remove personal services expenditures that will not be ongoing in this program.

The Health and Human Services Joint Appropriation Subcommittee requested a bill (HB 744) to allow the department to keep a portion of the general fund it saves by finding additional sources of federal matching funds. HB 744, which was passed and approved, specifies that

- o General fund savings must be applied to fund the refinancing activities
- o DPHHS may retain funds to maintain existing services
- o DPHHS may use funds to reinstate services that have been cut during the 2003 biennium with approval by the Office of Budget and Program Planning

Additional savings, beyond those listed above, revert to the general fund.

**Funding**

The following table shows program funding, by source, for the base year and for the 2005 biennium.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 1,152,946	45.0%	\$ 1,039,911	13.7%	\$ 1,060,612	13.9%
02099 69010-Vista-Community Cost Share	71,603	2.8%	71,869	0.9%	71,931	0.9%
02377 02 Indirect Activity Prog 04	174,965	6.8%	152,006	2.0%	155,914	2.0%
03072 Vista Projects	-	-	343,915	4.5%	343,811	4.5%
03208 Abstinence Education Blk Grant	143,732	5.6%	-	-	-	-
03583 93.778 - Med Ben Fmap	-	-	5,050,000	66.6%	5,050,000	66.2%
03594 03 Indirect Activity Prog 04	1,020,554	39.8%	930,261	12.3%	947,333	12.4%
Grand Total	<u>\$ 2,563,800</u>	<u>100.0%</u>	<u>\$ 7,587,962</u>	<u>100.0%</u>	<u>\$ 7,629,601</u>	<u>100.0%</u>

The 2005 biennium budget for the Director's Office is funded through a combination of general fund (14 percent), state special revenue (3 percent), and federal funds (83 percent). Some functions are supported directly by state special revenue and federal grants. Otherwise, the functions in the Director's Office are allocated among funding sources depending on cost allocation plans that are federally reviewed and approved. General fund matches some costs subject to the federally approved cost allocation plans and makes up some of the differences between what federal sources will fund and the balance of program costs. The increase in grants and benefits category of expenditures is due to the expected use of federal refinancing authority.

The general fund appropriation is lower than fiscal 2002 base year expenditures by about \$205,000 over the biennium due to changes in the cost allocation plan.

Federal funds include a federal grant for VISTA volunteer programs administered by the Director's Office, an appropriation of federal authority to fund refinancing projects, and grant funds received through the cost allocation plan, which pays a portion of Director's Office administrative costs.

State special revenue funds are derived through funds received through cost allocation and from communities participating in the Americorp\*VISTA program.

**Comparison of 2003 Biennium to 2005 Biennium**

The 2005 biennium appropriation is more than double the 2003 biennium amount, largely due to increases in federal funds for refinancing activities. The legislature consolidated federal appropriations for refinancing activities in the Director's Office to ensure department wide coordination of activities.

2003 Biennium Compared to 2005 Biennium Director's Office					
Budget Item/Fund	2003 Biennium	2005 Biennium	Percent of Total	Change	Percent Incr/Decr
FTE	38.00	43.75		5.75	
Personal Services	\$ 4,038,997	\$ 4,183,886	27%	\$ 144,889	4%
Operating Costs	3,198,973	1,614,841	11%	(1,584,132)	-50%
Equipment	8,948	0	0%	(8,948)	-100%
Grants	94,475	1,287,064	8%	1,192,589	1262%
Benefits & Claims	0	8,100,000	53%	8,100,000	n/a
Debt Service	31,473	31,772	0%	299	1%
<b>Total Costs</b>	<b>\$ 7,372,866</b>	<b>\$ 15,217,563</b>	<b>100%</b>	<b>\$ 7,844,697</b>	<b>106%</b>
General Fund	\$ 2,429,581	\$ 2,100,523	14%	(329,058)	-14%
State Special	1,555,951	451,720	3%	(1,104,231)	-71%
Federal Funds	3,384,334	12,665,320	83%	9,280,986	274%
<b>Total Funds*</b>	<b>\$ 7,369,866</b>	<b>\$ 15,217,563</b>	<b>100%</b>	<b>\$ 7,847,697</b>	<b>106%</b>
Percent Increase				106.5%	

Present Law Adjustments	-----Fiscal 2004-----					-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(148,225)					(145,890)
Vacancy Savings					(77,836)					(77,931)
Inflation/Deflation					3,151					3,504
Fixed Costs					16,269					19,053
<b>Total Statewide Present Law Adjustments</b>					<b>(\$206,641)</b>					<b>(\$201,264)</b>
DP 199 - Abstinence Grants/Reorg	0.00	0	0	(182,521)	(182,521)	0.00	0	0	(182,580)	(182,580)
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$182,521)</b>	<b>(\$182,521)</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$182,580)</b>	<b>(\$182,580)</b>
<b>Grand Total All Present Law Adjustments</b>					<b>(\$389,162)</b>					<b>(\$383,844)</b>

**Present Law Adjustments**

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

DP 199 - Abstinence Grants/Reorg - The abstinence education program was moved to the Human and Community Services Division during fiscal 2003. The legislature approved the amount of federal appropriation authority remaining in the Director's Office and transferred about \$365,000 federal funding from the Director's Office to align funding with the reorganization.

New Proposals	-----Fiscal 2004-----					-----Fiscal 2005-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 33 - Corporation for National Services											
04	0.75	0	0	343,915	343,915	0.75	0	0	343,811	343,811	
DP 113 - Refinancing Federal Authority											
04	5.00	0	0	5,050,000	5,050,000	5.00	0	0	5,050,000	5,050,000	
DP 785 - Senior Pharmacy Program - SB 473											
04	0.00	0	0	6,250	6,250	0.00	0	0	0	0	
DP 6800 - HB 13 - Pay Plan											
04	0.00	5,519	1,109	6,531	13,159	0.00	23,512	4,707	27,615	55,834	
<b>Total</b>	<b>5.75</b>	<b>\$5,519</b>	<b>\$1,109</b>	<b>\$5,406,696</b>	<b>\$5,413,324</b>	<b>5.75</b>	<b>\$23,512</b>	<b>\$4,707</b>	<b>\$5,421,426</b>	<b>\$5,449,645</b>	

**New Proposals**

DP 33 - Corporation for National Services - The legislature accepted the executive request for \$687,726 federal funds and funding for 0.75 FTE for the biennium for the Corporation for National Services grant. These funds will augment funding for the administration and support of the AmeriCorps\*VISTA program in the State of Montana.

DP 113 - Refinancing Federal Authority - The legislature added \$10.1 million in federal authority over the biennium to fund projects completed by through refinancing efforts of DPHHS. The funds support 5.00 FTE; however, the funding for the FTE is identified as a one-time-only appropriation in language in HB 2.

DP 785 - Senior Pharmacy Program - SB 473 - The legislature passed SB 473, which establishes a senior pharmacy program. The legislature added \$6,250 in federal authority to the Director's Office in fiscal 2004 for implementation costs related to rule making and other activities.

DP 6800 - HB 13 - Pay Plan - The legislature approved a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded. The Director's Office allocation to implement the pay plan is estimated to be \$29,031 general fund (\$68,993 total funds) over the biennium.

**Language**

The legislature added language to HB 2 urging the department to conduct a 30-day notice and public hearing if it needs to adopt emergency rules during the 2005 biennium. The department enacted a series of at least three rounds of budget reductions, some of which impacted provider rates and limited services during the 2003 biennium. Nearly all such actions were implemented through emergency rule, which did not allow for public comment. This language is discussed in the Director's Office program since the director provides overall policy direction.

The specific language in HB 2 is: "If budget reductions are enacted by emergency rule in the 2005 biennium, the legislature urges the department to provide a 30-day public notice and to conduct a public hearing prior to adoption of the emergency rules."

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	176.25	0.00	0.00	176.25	0.00	0.00	176.25	176.25
Personal Services	6,477,726	921,840	54,293	7,453,859	937,544	231,810	7,647,080	15,100,939
Operating Expenses	2,708,616	(13,530)	(2,250,000)	445,086	(12,226)	(1,510,818)	1,185,572	1,630,658
Local Assistance	0	0	0	0	0	0	0	0
Debt Service	14,264	0	0	14,264	0	0	14,264	28,528
<b>Total Costs</b>	<b>\$9,200,606</b>	<b>\$908,310</b>	<b>(\$2,195,707)</b>	<b>\$7,913,209</b>	<b>\$925,318</b>	<b>(\$1,279,008)</b>	<b>\$8,846,916</b>	<b>\$16,760,125</b>
General Fund	224,997	0	51,468	276,465	0	51,389	276,386	552,851
State/Other Special	2,799,172	358,742	(783,476)	2,374,438	364,297	(488,397)	2,675,072	5,049,510
Federal Special	6,176,437	549,568	(1,463,699)	5,262,306	561,021	(842,000)	5,895,458	11,157,764
NonExpendable Trust	0	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$9,200,606</b>	<b>\$908,310</b>	<b>(\$2,195,707)</b>	<b>\$7,913,209</b>	<b>\$925,318</b>	<b>(\$1,279,008)</b>	<b>\$8,846,916</b>	<b>\$16,760,125</b>

**Program Description**

The Child Support Enforcement Division (CSED) pursues and obtains financial and medical support for children by establishing, enforcing, and collecting financial support owed by obligated parents. Program staff locates absent parents, identifies assets, establishes paternity, and ensures obligated parents maintain medical health insurance coverage for their dependent children. Child support payments are collected for families receiving public assistance, Families Achieving Independence in Montana (FAIM), and those not on assistance. Services are available to any applicant regardless of income level.

**Program Narrative**

<b>Child Support Enforcement Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>○ General fund support increases 23 percent or about \$100,000 and total funding decreases 12 percent when compared to the 2003 biennium</li> <li>○ The legislature did not approve the request to charge fees for child support services; instead, \$1.3 million of state special revenue from Tobacco Prevention was diverted to a new account and appropriated for Child Support Enforcement (SB 485)</li> </ul>

*Decrease in Federal Incentive Funds*

Decreases in federal incentive funds and repayment of federal funds drawn in excess of Montana's grant award have had and continue to have significant impact on the funding for the CSED. Federal incentive funds for two federal fiscal years were drawn in excess of the grant awarded to Montana. Because the amount of the grant award is calculated retrospectively while funds are drawn down on a prospective basis it is normally a year after the close of the applicable fiscal year before states are notified of the grant award. While the department negotiated a repayment plan with the federal agency for the first year of the overdraw, federal officials withheld excess funds drawn in the second year from the department's account without notification or consultation. The department has worked closely with federal officials to obtain the most favorable repayment schedule possible. The department was supported in its efforts by letters from the legislature requesting assistance and emphasizing that this funding is necessary to continue program operations. Montana is somewhat unique in that the program is expected to be self-supporting. Federal welfare reform and the change in the calculation of federal incentive funds has made it increasingly difficult for the program to be maintained without increased funding from the general fund or other sources of revenue.

*Supplemental Appropriation*

During the 2003 legislative session, the executive sought and was provided a supplemental appropriation of \$1.2 million for CSED. In addition to this supplemental appropriation, department staff indicated a loan extending more than one year will be sought. The department must maintain operations of the division while repaying federal incentive funds that were overdrawn in prior years and while funding for the program continues to be unstable. The state must maintain a program that meets minimum federal program requirements in order to be eligible to receive the federal Temporary Assistance for Needy Families (TANF) grant (about \$44 million annually). Additionally, there are a number of penalties that may be assessed to a state if the state is out of compliance with federal requirements.

**Funding**

The following table shows program funding, by source, for the base year and for the 2005 biennium as appropriated by the legislature, including HB 13 pay plan.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 224,997	2.4%	\$ 276,465	3.5%	\$ 276,386	3.1%
02187 Child Support State Share	2,799,172	30.4%	2,374,438	30.0%	2,675,072	30.2%
03109 Tanf Benefits	186,386	2.0%	-	-	-	-
03570 93.563 - Child Support Ivd 66%	5,878,684	63.9%	5,150,939	65.1%	5,784,091	65.4%
03605 93.563 - Child Support Ivd 90/	111,367	1.2%	111,367	1.4%	111,367	1.3%
Grand Total	\$ 9,200,606	100.0%	\$ 7,913,209	100.0%	\$ 8,846,916	100.0%

The 2005 biennium budget is funded 3.1 percent by the general fund, 30.2 percent with state special revenue and 66.7 percent with federal funds. The primary sources of state special revenue are retention of the state's share of collections for clients who receive or have received cash assistance from the state, and performance based incentives awarded by the federal government.

The following figure on the next page summarizes the estimated fee revenue and expenditures for the Child Support Enforcement state special revenue account. The CSED state special revenue from historical sources is no longer adequate to sustain operations of the division. In order to achieve the state special revenue projections included in the Executive Budget the department sought legislative authorization to charge a fee for services provided by the division. The legislature did not approve this request. Instead the legislature, in SB 485, diverted for one biennium a portion of the state special revenue for Tobacco Prevention to a new account and appropriated about \$1.3 million in a biennial appropriation for child support enforcement services. Since these funds are appropriated in SB 485, they are not included in the main table in this report. This funding can be matched with federal funds on a 34 percent state, 66 percent federal ratio. Since this funding was provided for only one biennium, the next legislature will be faced with the need to provide a mechanism to fund child support enforcement services on an ongoing basis.

The lower portion of the figure summarizes general fund that supports the child support division and SEARCHS system costs included in the Operations and Technology Division budget. The 2005 biennium budget provides about \$0.5 million general fund for the Child Support Enforcement Division and \$1.4 million is included in the Operations and Technology Division for SEARCHS system costs.

Summary of State Special Revenue Fund - Child Support Collections				
Description	Fiscal 2002	Fiscal 2003*	Fiscal 2004	Fiscal 2005
Beginning Balance	\$ (67,256)	\$ (2,143,929)	\$ (2,937,794)	\$ (2,838,275)
Revenues:				
State Share of TANF Collections	1,319,236	1,395,989	1,395,989	1,395,989
Federal Incentive Funds	100,266	1,527,061	1,358,352	1,358,352
Other Revenue	<u>59,526</u>	<u>22,237</u>	<u>20,000</u>	<u>20,000</u>
Total Revenues	\$ 1,479,028	\$ 2,945,287	\$ 2,774,341	\$ 2,774,341
Expenditures:				
CSED Expenditures	\$ 3,555,701	\$ 3,739,152	\$ 2,374,438	\$ 2,675,072
SEARCHS	<u>-</u>	<u>-</u>	<u>300,384</u>	<u>300,384</u>
Total Expenditures	\$ 3,555,701	\$ 3,739,152	\$ 2,674,822	\$ 2,975,456
Revenue Over (Under) Expenses	\$ (2,076,673)	\$ (793,865)	\$ 99,519	\$ (201,115)
Ending Balance	\$ (2,143,929)	\$ (2,937,794)	\$ (2,838,275)	\$ (3,039,390)
<b>Summary of General Fund Support :*</b>				
CSED	\$ 224,997	\$ 225,000	\$ 276,465	\$ 276,386
SEARCHS	<u>649,563</u>	<u>254,214</u>	<u>676,049</u>	<u>676,049</u>
Total General Fund Support	\$ <u>874,560</u>	\$ <u>479,214</u>	\$ <u>952,514</u>	\$ <u>952,435</u>
<b>*Notes:</b>				
CSED is the Child Support Enforcement Division				
SEARCHS is the System for the Enforcement and Recovery of Child Support				
Fiscal 2003 revenues and expenditures are estimated revenues given current data.				

**Biennial Comparison**

As illustrated in the figure below, 2005 biennium funding for the division decreases 12 percent when compared to the 2003 biennium. This decrease in funding is due to a decrease in state special revenue from federal incentive awards and the loss of federal matching fund obtained with the state special revenue from federal incentives. General fund support for the division increases 23 percent or about \$100,000. The majority of the division's funding, 90 percent, supports personal services, while the division's remaining funding supports operating costs.

2003 Biennium Compared to 2005 Biennium Child Support Enforcement					
Budget Item/Fund	2003 Biennium	2005 Biennium	Percent of Total	Change	Percent Incr/Decr
FTE	176.25	176.25		-	
Personal Services	\$ 13,852,864	\$ 15,100,939	90.1%	\$ 1,248,075	9.0%
Operating Costs	5,184,993	1,630,658	9.7%	(3,554,335)	-68.6%
Local Assitance	6,249	0	0.0%	(6,249)	-100.0%
Debt Service	<u>26,722</u>	<u>28,528</u>	<u>0.2%</u>	<u>1,806</u>	<u>6.8%</u>
Total Costs	\$ <u>19,070,828</u>	\$ <u>16,760,125</u>	<u>100.0%</u>	\$ <u>(2,310,703)</u>	<u>-12.1%</u>
General Fund	\$ 448,878	\$ 552,851	3.3%	\$ 103,973	23.2%
State Special	5,830,896	5,049,510	30.1%	(781,386)	-13.4%
Federal Funds	<u>12,791,054</u>	<u>11,157,764</u>	<u>66.6%</u>	<u>(1,633,290)</u>	<u>-12.8%</u>
Total Funds	\$ <u>19,070,828</u>	\$ <u>16,760,125</u>	<u>100.0%</u>	\$ <u>(2,310,703)</u>	<u>-12.1%</u>
Percent Increase					-12.1%

While the 2005 biennium funding in HB 2 and HB 13 combined decreases significantly when compared with the 2003

biennium, the legislature provided some funding for the division in SB 485 by revising the use of a portion of tobacco settlement proceeds. The figure below compares the 2005 biennium funding, including SB 485, to the 2003 biennium funding. The combined funding for the division provided in these three bills increases 7.8 percent between the 2003 and 2005 biennia. However, none of these bills includes an appropriation of the estimated \$2.5 million of federal funds that may be obtained if funds in SB 485 are used as match. The department may need to transfer federal authority between programs or request a budget amendment to provide child support sufficient authority to expend the federal funds that will likely be available to the division.

Child Support Enforcement Division Summary of HB 2, HB 13 and SB 485 Funding			
Fund	2003 Biennium	2005 Biennium	Percent Incr.
<b>HB 2 and HB 13 Funding</b>			
General Fund	\$ 448,878	\$ 552,851	
State Special	5,830,896	5,049,510	
Federal Funds	12,791,054	11,157,764	
<b>SB 485 Funding</b>			
State Special - SB 485 Appropriation		1,263,678	
Federal Funds -SB 485 to Match*		2,527,356	
<b>Total Potential Funding - HB 2 and SB 485</b>			
General Fund	448,878	552,851	23.2%
State Special	5,830,896	6,313,188	8.3%
Federal Funds	12,791,054	13,685,120	7.0%
<b>Total</b>	<b>\$ 19,070,828</b>	<b>\$ 20,551,159</b>	<b>7.8%</b>

\*This amount is not appropriated and would like need to be obtained through a budget amendment or program transfer.

Present Law Adjustments	-----Fiscal 2004-----				-----Fiscal 2005-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,230,160					1,246,502
Vacancy Savings					(308,320)					(308,958)
Inflation/Deflation					31,517					33,627
Fixed Costs					(34,871)					(34,871)
<b>Total Statewide Present Law Adjustments</b>					<b>\$918,486</b>					<b>\$936,300</b>
DP 236 - Reduce the Number of Leased Vehicles	0.00	0	(3,460)	(6,716)	(10,176)	0.00	0	(3,734)	(7,248)	(10,982)
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$3,460)</b>	<b>(\$6,716)</b>	<b>(\$10,176)</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$3,734)</b>	<b>(\$7,248)</b>	<b>(\$10,982)</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$908,310</b>					<b>\$925,318</b>

**Present Law Adjustments**

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

DP 236 - Reduce the Number of Leased Vehicles - The legislature approved a reduction of \$7,194 in state special revenue and \$13,964 in federal funds supporting the leasing of two State Motor Pool vehicles. As a costs saving measure, the division replaced two motor pool leased vehicles with vehicles that were surplus by other agencies.

New Proposals										
Program	FTE	-----Fiscal 2004-----				-----Fiscal 2005-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 753 - Increase General Fund - Move Funds From QAD										
05	0.00	51,468	(51,468)	0	0	0.00	51,389	(51,389)	0	0
DP 758 - Maintain Funding for CSED										
05	0.00	0	(750,000)	(1,500,000)	(2,250,000)	0.00	0	(513,678)	(997,140)	(1,510,818)
DP 6800 - HB 13 - Pay Plan										
05	0.00	0	17,992	36,301	54,293	0.00	0	76,670	155,140	231,810
<b>Total</b>	<b>0.00</b>	<b>\$51,468</b>	<b>(\$783,476)</b>	<b>(\$1,463,699)</b>	<b>(\$2,195,707)</b>	<b>0.00</b>	<b>\$51,389</b>	<b>(\$488,397)</b>	<b>(\$842,000)</b>	<b>(\$1,279,008)</b>

**New Proposals**

DP 753 - Increase General Fund - Move Funds From QAD - The legislature reduced the general fund support for the Quality Assurance Division by \$102,857 for the biennium and provided this amount of general fund to the Child Support Enforcement Division. The legislature also decreased state special revenue support for the Child Support Enforcement Division by a like amount.

DP 758 - Maintain Funding for CSED - The legislature reduced funding for the division from base budget funding sources and provided \$1,263,678 of state special revenue from the DPHHS Prevention and Stabilization Account (PSF) to maintain funding for the Child Support Enforcement Division at the current level. However, the contingencies providing the PSF were not met. Therefore, the reduction in existing funding remains but the funding from the PSF is removed.

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund this pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	50.00	0.00	0.00	50.00	0.00	0.00	50.00	50.00
Personal Services	1,907,552	143,188	14,048	2,064,788	145,761	60,172	2,113,485	4,178,273
Operating Expenses	3,011,475	133,720	7,084	3,152,279	(133,907)	7,084	2,884,652	6,036,931
Debt Service	40,895	0	0	40,895	0	0	40,895	81,790
<b>Total Costs</b>	<b>\$4,959,922</b>	<b>\$276,908</b>	<b>\$21,132</b>	<b>\$5,257,962</b>	<b>\$11,854</b>	<b>\$67,256</b>	<b>\$5,039,032</b>	<b>\$10,296,994</b>
General Fund	2,322,416	117,943	6,589	2,446,948	(6,635)	28,216	2,343,997	4,790,945
State/Other Special	278,275	25,347	7,833	311,455	(8,079)	10,328	280,524	591,979
Federal Special	2,359,231	133,618	6,710	2,499,559	26,568	28,712	2,414,511	4,914,070
<b>Total Funds</b>	<b>\$4,959,922</b>	<b>\$276,908</b>	<b>\$21,132</b>	<b>\$5,257,962</b>	<b>\$11,854</b>	<b>\$67,256</b>	<b>\$5,039,032</b>	<b>\$10,296,994</b>

**Program Description**

The Fiscal Services Division (FSD) provides support services for the Department of Public Health and Human Services. The division provides purchasing services, and financial and accounting services including cash management, preparation and filing of federal financial reports, and fiscal policy development and implementation. The FSD is staffed with 50.0 FTE.

**Program Narrative**

<b>Fiscal Services Division Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>○ 2005 biennium general fund is 0.4 percent less when compared to the 2003 biennium, total funding decreases 0.6 percent</li> <li>○ This division was created during the 2003 biennium through reorganization of the Operations and Technology Division</li> </ul>

The department created the Fiscal Services Division by removing some functions from the Operations and Technology Division. The department revised the organizational structure after the Legislative Audit Division (LAD) issued a qualified audit opinion for the two fiscal years ending June 30, 2001.

The issuance of a qualified audit opinion indicates that the reader of the financial statements should use caution when analyzing the presented financial information and supporting data. In response to this audit the department developed and implemented several plans during the 2003 biennium including:

- A corrective action plan to address audit recommendations
- A financing management control structure development plan
- A cash management improvement plan

Implementation and monitoring of processes and procedures related to some audit recommendations and related action plans are ongoing. However, the department expects future financial compliance audits to reflect significant improvement in the financial management functions of the department.

**Program Reorganization**

The department created the Fiscal Services Division by removing: 1) accounting and fiscal management; 2) fiscal policy development and oversight; 3) institutional reimbursement; and 4) purchasing services from the Operations and Technology Division. The department revised the organizational structure after the Legislative Audit Division (LAD) issued a qualified audit opinion for the two fiscal years ending June 30, 2001

**Funding**

The following table shows program funding, by source, for the base year and for the 2005 biennium.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 2,322,416	46.8%	\$ 2,446,948	46.5%	\$ 2,343,997	46.5%
02382 6901-02 Indrct Activity Prog 06	278,275	5.6%	311,455	5.9%	280,524	5.6%
03591 6901 - 03 Indrct Activity Prog 06	2,359,231	47.6%	2,499,559	47.5%	2,414,511	47.9%
Grand Total	<u>\$ 4,959,922</u>	<u>100.0%</u>	<u>\$ 5,257,962</u>	<u>100.0%</u>	<u>\$ 5,039,032</u>	<u>100.0%</u>

The division is funded 46 percent from the general fund, 6 percent from state special revenue, and 48 percent from federal funds. The funding for the division is determined through a complex federally approved cost allocation that charges all programs administered by the department with a portion of the division's costs.

An amendment approved by the legislature to provide DPHHS the funding to implement the requirements of SB 473, providing a prescription drug expansion program under Medicaid, provided the Fiscal Services Division \$7,084 state special revenue each year of the biennium. The amendment should have provided a like amount of federal funds in fiscal 2004 and \$28,333 state special revenue and a like amount of federal funds in fiscal 2005. Thus, biennial appropriations of state special revenue and federal funds are \$21,249 and \$56,666 respectively, below the level the department requested.

**Biennial Budget Comparison**

Budget Item/Fund	2003 Biennium	2005 Biennium	Percent of Total	Change	Percent Incr/Decr
FTE	50.00	50.00		-	
Personal Services	\$ 3,764,183	\$ 4,178,273	40.6%	\$ 414,090	11.0%
Operating Costs	6,492,701	6,036,931	58.6%	(455,770)	-7.0%
Debt Service	<u>99,438</u>	<u>81,790</u>	<u>0.8%</u>	<u>(17,648)</u>	<u>-17.7%</u>
Total Costs	\$ 10,356,322	\$ 10,296,994	100.0%	\$ (59,328)	-0.6%
General Fund	\$ 4,809,983	\$ 4,790,945	46.5%	\$ (19,038)	-0.4%
State Special	502,072	591,979	5.7%	89,907	17.9%
Federal Funds	<u>5,044,267</u>	<u>4,914,070</u>	<u>47.7%</u>	<u>(130,197)</u>	<u>-2.6%</u>
Total Funds	\$ <u>10,356,322</u>	\$ <u>10,296,994</u>	<u>100.0%</u>	\$ <u>(59,328)</u>	<u>-0.6%</u>
Percent Increase					-0.6%

General fund support, including funding for pay plan, for the division decreased 0.4 percent and total funding decreases 0.6 percent when compared to the 2003 biennium. Increases in personal services costs were offset by reductions in operating costs resulting in a net decrease in funding for the division.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					228,637					231,314
Vacancy Savings					(85,449)					(85,553)
Inflation/Deflation					7,046					7,062
Fixed Costs					126,674					(140,969)
<b>Total Statewide Present Law Adjustments</b>					<b>\$276,908</b>					<b>\$11,854</b>
<b>Grand Total All Present Law Adjustments</b>					<b>\$276,908</b>					<b>\$11,854</b>

**Present Law Adjustments**

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

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 769 - Senate Bill 473										
06	0.00	0	7,084	0	7,084	0.00	0	7,084	0	7,084
DP 6800 - HB 13 - Pay Plan										
06	0.00	6,589	749	6,710	14,048	0.00	28,216	3,244	28,712	60,172
<b>Total</b>	<b>0.00</b>	<b>\$6,589</b>	<b>\$7,833</b>	<b>\$6,710</b>	<b>\$21,132*</b>	<b>0.00</b>	<b>\$28,216</b>	<b>\$10,328</b>	<b>\$28,712</b>	<b>\$67,256</b>

**New Proposals**

DP 769 - Senate Bill 473 - The legislature provided \$7,084 state special revenue each year of the biennium to implement SB 473 providing a prescription drug expansion program under Medicaid.

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund this pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded