Agency Legislative Budget

The following table summarizes the total legislative budget for the agency by year, type of expenditure, and source of funding. Also included in the table is HB 447 pay plan allocation.

Agency Legislative Budget Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	2,755.01	0.20	28.25	2,783.46	0.20	32.25	2,787.46	2,787.46
Personal Services	114,038,582	7,187,430	5,274,591	126,500,603	7,224,783	11,299,055	132,562,420	259,063,023
Operating Expenses	88,621,395	11,053,379	18,519,387	118,194,161	11,414,676	24,087,432	124,123,503	242,317,664
Equipment	376,355	51,000	85,000	512,355	36,000	0	412,355	924,710
Capital Outlay	0	0	0	0	0	0	0	0
Grants	42,470,810	3,268,515	4,724,918	50,464,243	3,761,327	3,771,061	50,003,198	100,467,441
Benefits & Claims	821,366,107	110,657,832	113,960,006	1,045,983,945	156,041,929	109,270,374	1,086,678,410	2,132,662,355
Transfers	0	0	0	0	0	0	0	0
Debt Service	598,806	0	0	598,806	0	0	598,806	1,197,612
Total Costs	**$1,067,472,055**	**$132,218,156**	**$142,563,902**	**$1,342,254,113**	**$178,478,715**	**$148,427,922**	**$1,394,378,692**	**$2,736,632,805**
General Fund	248,448,589	45,661,704	16,588,046	310,698,339	56,524,151	8,882,906	313,855,646	624,553,985
State/Other Special	36,553,605	7,689,993	44,871,916	89,115,514	9,520,906	42,810,629	88,885,140	178,000,654
Federal Special	782,469,861	78,866,459	81,103,940	942,440,260	112,433,658	96,734,387	991,637,906	1,934,078,166
Total Funds	**$1,067,472,055**	**$132,218,156**	**$142,563,902**	**$1,342,254,113**	**$178,478,715**	**$148,427,922**	**$1,394,378,692**	**$2,736,632,805**

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). In addition, the 2005 Legislature implemented two new programs – a state pharmacy assistance program and health insurance premium assistance for small employers. DPHHS administers the state pharmacy program and will implement a Medicaid waiver to complement the premium assistance program administered by the State Auditor.

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; Eastern Montana Veterans' Home, Glendive; Montana Veterans' Home, Columbia Falls; and Montana Developmental Center, Boulder.

Agency Highlights

Department of Public Health and Human Services
Major Budget Highlights

- The 2007 biennium DPHHS budget grows to over $2.8 billion when HB 2 and other ongoing program appropriations are included
- Appropriation increases for direct services to individuals account for over 80 percent of 2007 biennium appropriations
  - Appropriations for Medicaid services are 60 percent of the total agency appropriation
  - The other significant appropriations support the food stamp program, Temporary Assistance for Needy Families, child care, and the Children's Health Insurance Program (CHIP)

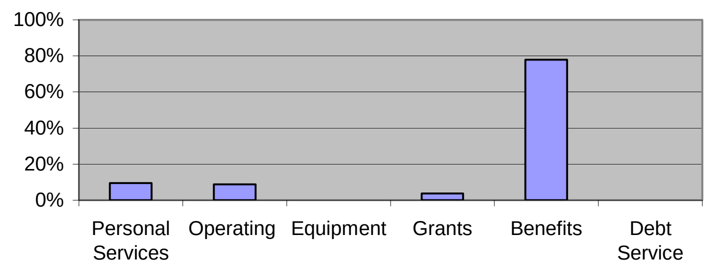
- Legislation and appropriations to implement I-149, a voter initiative to raise tobacco taxes and fund various health care initiatives, were major policy initiatives considered by the legislature
  - SB 324 enacted prescription drug assistance programs for low-income Montanans and established prescription drug technical assistance
  - HB 667 enacted various types of health insurance premium assistance for small employers, including a Medicaid waiver to be administered by DPHHS for premium assistance
  - HB 2 includes funding for Medicaid provider rate and direct care worker wage increases, Medicaid service expansions supported by increased tobacco taxes, and CHIP
  - Total appropriations made by the legislature to implement I-149 initiatives include:
    - $20 million for the prescription drug program
    - $14 million for provider rate increases and direct care worker wages
    - $6.5 million for the Mental Health Services Plan (MHSP) and state match for the Health Insurance Flexibility and Accountability (HIFA) waiver
    - $5 million for CHIP state match to maintain and expand enrollment to 13,900 children
    - $4 million for Medicaid match
    - $4 million for Medicaid services expansions, of which $2 million is appropriated in HB 552 (expand children's eligibility for Medicaid)
- The 2007 biennium budget is $502 million (22 percent) greater than the 2005 biennium budget, including a general fund increase of $104 million (20 percent)
  - General fund growth is due primarily to caseload and service utilization changes
  - Reductions in the federal Medicaid match rate adds about $36 million general fund difference between biennia
- The 2007 biennium budget is $602 million (28 percent) greater than twice the 2004 base budget
  - $54 million of the general fund difference between the base budget and the 2007 biennium appropriation is due to federal Medicaid match changes.
- The 2007 biennium legislative budget is $89 million, including $11 million general fund, greater than the executive budget request, primarily due to legislative initiatives that appropriated:
  - $5 million more for direct care worker wages
  - $2 million more for provider rate increases
  - $2 million general fund more for Meals on Wheels and nonMedicaid in-home caregiver services
  - $2 million appropriated in HB 552, which expanded Medicaid eligibility for children
- Legislative appropriations fund 67.45 new FTE, with the most significant changes being:
  - 10.00 regional FTE for adult and child mental health services
  - 10.00 FTE to enhance administration of Medicaid services
  - 9.00 FTE to administer the new prescription drug program
  - 8.00 FTE to implement federal requirements to evaluate the accuracy of Medicaid payments
  - 4.00 FTE to administer the tobacco use prevention and control

program funded at the full level anticipated by voter initiative I-146 passed in November 2002
- Decreases of 35.00 FTE at Montana Development Center that partially offset the increase

Summary of Legislative Action

The 2007 biennium appropriation for DPHHS is $602 million higher than twice the FY 2004 base budget. Most of the growth is in benefits and claims ($490 million or 81 percent), which are expenditures that provide discreet, distinct services to individuals. As illustrated in Figure 1 the majority of the department funding (almost 80 percent) supports benefit and claims costs paid on behalf of individuals.

Figure 1
Percent of Budget
By Category of Expenditure



Medicaid services are the largest component of the benefits and claims appropriations, accounting for half of the general fund appropriated to the department. Personal services and operating costs, which each account for 9 percent of the department's budget, comprise the next largest category of expenditure.

General fund rises $128 million (21 percent of the total increase) and state special revenue grows $105 million (17 percent of the total). Growth in state funding for DPHHS is also primarily related to the change in benefits and direct services for individuals. General fund increases support:

- Medicaid match rate changes - $54 million
- Medicaid caseload and service utilization increases - $41 million
- Provider rate and direct care worker wage increases - $4 million
- Overtime, holiday, and shift differential pay and operating expense inflation at state institutions - $8 million
- 2007 biennium pay plan increases - $6.5 million

State special revenue increases are largely driven by appropriations to implement and support programs authorized by I-149, a voter passed citizen initiative to raise tobacco taxes and spend the proceeds on a variety of health and Medicaid initiatives. Appropriation of I-149 funding adds $47 million over the 2007 biennium, or about 45 percent of the total growth in state special revenue appropriations. State special revenue increases support:

- Medicaid provider and direct care worker wage increases and service expansions - $53 million, which includes $25 million for the continuation of the hospital bed tax
- The new state pharmacy assistance program for low-income Montanans - $20 million
- Annualization of FY 2005 nursing home bed day taxes and growth in the county contributions toward the nursing home intergovernmental transfer to use as state Match to increase nursing home reimbursement - $8 million
- Expansion of the tobacco prevention and control program - $8 million
- Maintenance of current CHIP enrollment (10,900) and expansion to 13,900 children - $5 million
- 2007 biennium pay plan increases - $1.3 million

Two other bills (HB 552 and HB 749) passed by the legislature add $12 million in state special revenue appropriations that are not reflected in the main program table, but will be included in the FY 2006 base budget and annual appropriations for the 2009 biennium. Effective FY 2007, HB 552 raises the Medicaid asset limit from $3,000 to $15,000 per family to determine whether children in the family are eligible for Medicaid. HB 552 includes a $2 million appropriation for the Medicaid state match, while the federal matching funds are included in HB 2. HB 749 continues and raises the daily nursing home fee that is used as state match to raise Medicaid nursing home rates. HB 749 includes appropriations of $10 million in state special revenue and $23 million in federal matching funds over the 2007 biennium.

Federal funds increase a net of $369 million. While most of the increase in federal funding supports Medicaid service and rate increases, the reduction in federal match rate changes reduces federal Medicaid funding by $54 million. Federal funding increases support:

- Medicaid caseload, provider rate, and service expansions - $210 million
- Federal food stamp benefits - $55 million
- TANF benefits - $20 million
- Medicaid program administration - $14 million
- Maintenance and expansion of CHIP enrollment to 13,900 children - $13 million
- Federal public health categorical grants for such purposes as Women, Infant and Children (WIC) feeding program, emergency preparedness and chronic disease prevention - $13 million
- Childcare - $9 million
- Administrative costs that are allocated among federal funding sources, including funding for the 2007 biennium pay plan funding - $9 million

Personal services funding rises $31 million, about 5 percent of the budget increase, when the 2007 biennium is compared to twice the FY 2004 base and supports 32.25 new FTE.

Figure 2 shows the net changes in FTE throughout the department (an increase of 28.25 and 32.25 in FY 2006 and 2007, respectively). Ten of the new FTE will fill regional positions for adult and children's mental health. These FTE are expected to generate savings because they will help persons access the most appropriate level of services and help develop new community services. Additionally, 10.00 new FTE are added to assist in management of Medicaid services and are expected to generate savings in services costs.

Many of the new FTE added are supported by various federal grants including 13.00 FTE added to the Public Health and Safety Division, 0.20 FTE added to the Human and Community Services Division, and 7.0 FTE added to the Health Resources Division to develop a children's system of care. State special revenue supports 5.00 FTE added to the Public Health and Safety Division for the clinical lab and tobacco use prevention programs.

FTE in the Quality Assurance Division increase by 6.25 in FY 2006 and 8.25 in FY 2007 due to new functions that are mandated by state and federal regulation. The Health Resources Division FTE increases by 10.00 to accomplish various program analysis and oversight functions that are expected to reduce overall Medicaid spending and by 9.00 to implement the new state prescription drug program.

The legislature added 1.00 FTE to the Disabilities Services Division to provide a computer technician to assist blind and visually impaired individuals with adaptive technology and software. Additionally, 5.00 FTE were added to support the anticipated workload impacts of legislation including HB 552, HB 667 and SB 324

The FTE increases are partially offset by a decrease of 35.00 FTE in the Disability Services Division at the Montana Developmental Center in Boulder. The level of FTE required at the institution will decrease as 45 individuals are moved to community services and two units at the facility are closed as required by the settlement agreement in the Travis D. litigation.

Figure 2

Department of Public Health and Human Services
Summary of FTE Changes
2007 Biennium Appropriation

Program and Decision Package Title	FY2006	FY2007
Human/Community Services Division		
Child Care	0.20	0.20
Implement Provisions of HB 667	1.00	1.00
Implement HB 552, Medicaid Asset Test	3.00	3.00
Director's Office		
Tribal Staff	1.00	1.00
Public Health and Safety		
Tobacco Use Prevention Program	4.00	4.00
Statewide Emergency Preparedness	3.00	3.00
Libby Asbestos Program	2.00	2.00
Public Health Planner	1.00	1.00
Communicable Disease Monitoring	1.00	1.00
Environmental Public Health Tracking	1.00	1.00
Environmental Laboratory Chemist	1.00	1.00
Clinical Lab Specialist	1.00	1.00
Quality Assurance Division		
Medicaid Payment Error Rate Meas.	6.00	8.00
Implement Medical Marijuana Act	0.25	0.25
Disability Services Division		
Movement to Community	(35.00)	(35.00)
Computer Tech to Assist Blind	1.00	1.00
Health Resources Division		
State Pharmacy Program (SB 324)	9.00	9.00
Develop System of Care of Children	7.00	7.00
Regional Staff - Children's Mental Health	5.00	5.00
Medicaid Program Management	5.00	5.00
CHIP Program Expansion	2.00	2.00
Medicaid Cost Analysis	2.00	2.00
Medicaid Passport Services	2.00	2.00
Medicaid Pharmacy Program	1.00	1.00
Health Insurance Premium Assistance (HB 667)	1.00	1.00
Addictive and Mental Disorders Div.		
Regional Staff	3.00	5.00
Total	28.45	32.45

Operating costs increase about $65 million and comprise about 11 percent of the increase from the base budget. Operating cost increases are due to changes in professional and consulting fees, and $1.6 million for the biennium for bed tax fees at the Montana Developmental Center. However, about $20 million of the biennial increase is due to appropriations for contracts that provide direct and indirect services to individuals and the public in general. The legislature has directed the department to work in conjunction with the Department of Administration, legislative staff, and the Office of Budget and Program Planning to review state accounting guidelines with the goal of moving such types of expenditures out of the operating category of costs.

Grant appropriations rise about $16 million over the biennium. The most significant appropriations for grant expenditures support:

- Child and Adult Food Care Program - $2 million of federal funds
- Development and implementation of a system of care for children - $2 million in federal funds
- Additional funds for Meals on Wheels and a new appropriation to support non Medicaid in-home caregiver services - $2 million general fund
- Full funding for federal mental health block grant funds that were partially withheld since the state did not meet its full maintenance of effort in the base year budget - $2 million federal funds
- Maintaining the MIAMI (low birth weight prevention) program - $1 million general fund
- Increases for WIC - $1 million federal funds
- Childcare services - $1 million federal funds

Implementation of Voter Initiative I-149

One of the most significant policy and appropriation issues considered by the 2005 Legislature was implementation of citizen Initiative 149 (I-149) in November 2004, which:

- Raised taxes on tobacco products, most notably a $1 increase per pack of cigarettes
- Created the health and Medicaid initiatives account for receipt of tobacco tax revenues
- Established uses for I-149 revenues:
    - State matching funds to maximize enrollment of eligible children in CHIP
    - Need based prescription drug program for children, seniors, chronically ill, and disabled persons
    - Increased Medicaid services and Medicaid provider rates
    - Tax credits for small employers for assistance in providing health insurance to their employees

I-149 is codified in Title 53 Chapter 6 part 12, MCA.

The legislature passed two bills (SB 324 – prescription drug program and HB 667 – health insurance tax credits and premium assistance for small employers) to implement I-149 and made various appropriations in HB 2.

State Pharmacy Access and Prescription Drug Access

SB 324 embodies the components of I-149 (53-6-1201(3)(b), MCA) that allow for funding from the health and Medicaid initiatives account for a prescription drug program. DPHHS administers the program and SB 324 establishes the following program components:

- State pharmacy access to complement the new Medicare drug benefit (Part D)
- Pharmacy information access
- Pharmacy plus program

Total program expenditures are limited to the appropriated amounts, so DPHHS may have to establish enrollment limits for some program components. The legislature appropriated $20 million state special revenue over the biennium from the health and Medicaid initiatives account ($16 million) and rebates from drug manufacturers participating in the pharmacy plus program ($4 million). The funding supports 9.00 new FTE and operating costs for program administration, but the lion's share of the appropriation ($15 million) supports direct services to individuals. The $5 million appropriation for administrative costs also includes the cost to provide pharmacy assistance to Montanans who telephone or visit the website that is to be established by DPHHS.

SB 324 also includes a provision requiring the Office of Budget and Program Planning (OBPP) to estimate the revenues for the health and Medicaid initiatives account by July 1 for each coming fiscal year of the biennium. If projected revenues are below the amount appropriated from the account, OBPP must notify DPHHS, and DPHHS must change the operating plan for the program to reflect the available revenue.

State Pharmacy Access Program

The state pharmacy program is designed to complement the new Medicare Part D drug benefit. Enrollment in the state program must be opened at the same time enrollment commences for the Part D benefit. Other program components include:

- Eligibility – family income up to 200 percent of the federal poverty level and individual must submit proof of enrollment in Medicare Part D
- Benefits – full or partial payment of the Part D premium and, depending on funding availability, payment of a portion of the deductible

Prescription Drug Information and Technical Assistance Program

SB 324 also establishes prescription drug and consumer information and technical assistance program in DPHHS to provide Montana residents with advice on the prudent use of prescription drugs and how to access government and private prescription drug programs and discounts. DPHHS is required to:

- Provide consultation by licensed pharmacists with individuals on how to avoid dangerous drug interactions and provide for substitution of more cost-effective drugs
- Create educational resources, including a website

Pharmacy Plus Discount Program

SB 324 also provides for use of health and Medicaid initiatives account funds for a pharmacy plus discount program (53-6-1002, MCA) if DPHHS determines that there are excess funds remaining from the appropriation for the Part D state pharmacy program. The pharmacy plus discount program:

- Provides discounted prices for prescription drugs for persons with incomes below 250 percent of the federal poverty level
- Allows establishment of a secondary discounted price for generic drugs, depending on funding availability
- Establishes a state special revenue account for receipt of drug rebate revenues from drug manufacturers participating in the program
- Limits program expenditures to available funding

Health Insurance Premium Assistance Program for Small Employers

HB 667 implemented a second important component of I-149 – assistance in providing health insurance for small employers by establishing:

- Tax credits for small employers purchasing health insurance
- A health insurance purchasing pool
- Premium assistance

The State Auditor will administer the program, which is discussed in greater detail in the Office of State Auditor, Volume 3 of the Fiscal Report. DPHHS received funding for 1.00 FTE to develop and implement a Medicaid waiver to provide premium assistance for low-income workers of small employers and federal matching funds in FY 2007 to help fund Medicaid services. The State Auditor will provide the necessary state match. In order to be eligible:

- Employers must have two to nine employees and not currently offer health insurance and begin to do so by:
    - Opting into the small employer health insurance purchasing pool or
    - Joining a qualified association plan
- Employees must not be eligible for Medicaid or CHIP and have incomes below 200 percent of the federal poverty level and meet the following criteria:
    - Uninsured adults ages 19 through 64 who have children under the age of 21
    - Youths age 18 to 21

HB 667 included the same amendments as SB 324 regarding adjustments of program operating budgets if revenue forecasts made by OBPP show that the funds received by the health initiatives and Medicaid account will be insufficient to fund the appropriations from the account.

HB 2 Appropriations for Medicaid, CHIP, and Other Services

The legislature also appropriated health initiative and Medicaid funds to support CHIP, Medicaid service expansions and provider rate increases, and other services. While the legislature accepted the executive proposals for Medicaid provider rate increases funded from I-149 funds, state match for CHIP and Medicaid services, and children’s special health services, it also expanded provider rate increases, added funds for direct care worker wage increases, and expanded Medicaid eligibility for children, raising asset limits for a family from $3,000 to $15,000 (HB 552). Figure 3 shows each appropriation made from I-149 in HB 2 and HB 552. Appropriations marked with an asterisk are those added by legislative initiative.

Figure 3
Legislative Appropriation of I-149 Funds and General Fund to Delay Use of I-149 Until 1/1/06

Description of Appropriation, Agency, HB 2, and HB 552	Biennial Approp. General Fund	Biennial Approp. I-149	% of Ttl I-149
APPROPRIATIONS IN HB 2 - DPHHS			
PRESCRIPTION DRUG PROGRAM - SB 324	$0	$15,750,000	26%
SMALL EMPLOYER PREMIUM ASSISTANCE - HB 667	0	34,574	0%
MEDICAID DIRECT CARE WORKER WAGE INCREASES			
Direct Care Worker Wage Incresaes			
Nursing Homes and Aging/Disabled Community	$1,000,000	$3,000,000	5%
DD Provider Wages - 25th to the 35th Labor Market Percentile	475,000	1,425,000	2%
Children's Mental Health Direct Care Worker Wage Increase	0	875,000	1%
Nursing Home/Community Services Direct Care Wage Initiatives	271,873	815,618	1%
Total Medicaid Direct Care Worker Wage Increase Proposals	$1,788,940	$6,115,618	10%
MEDICAID PROVIDER RATE INCREASES			
Rate Increases			
Nonhospital Service Provider Rate Increase; Dental Access	$858,952	$3,112,824	5%
3% Nursing Home/Community Services Provider Rate Increase	720,004	2,194,923	4%
Children's Mental Health 6% Rate Increase			0%
Physician Rate Increase to 85% of Medicare Rate	400,000	1,200,000	2%
EPSDT, Hospitals, Critical Access Hospitals, Ambulatory Surgical Centers	0	824,067	1%
Cardiac and Pulmonary Rehabilitation	0	177,215	0%
Total Medicaid Rate Increase Proposals	$1,978,956	$7,509,029	12%
MEDICAID SERVICE EXPANSIONS			
Raise Medicaid Asset Test - Children (Appropriation in HB 552)	0	1,876,316	3%
Home/Community Waiver Services for Mentally Ill Adults	0	631,601	1%
Expand Intensive Community Rehab. Beds by 7 - Adults	0	256,194	0%
Community Services Expansion (20 New Senior/Disabled Slots)	0	825,829	1%
Flexible Funds for Waiver for Seriously Emotionally Disturbed Children	0	50,000	0%
Subtotal Medicaid Service Expansions		3,639,940	6%
TOTAL MEDICAID RATE AND SERVICE EXPANSIONS FUNDED	$1,978,956	$11,148,969	18%
OTHER APPROPRIATIONS FROM I-149 FUNDS			
Mental Health Services Plan/HIFA Medicaid Match in FY 07	0	6,500,000	11%
Medicaid Matching Funds	0	3,976,371	7%
CHIP Enrollment Including Expansion to 13,900 Children	1,215,680	4,537,298	7%
Additional Clinic Children's Specialty Health Clinic	0	75,000	0%
TOTAL OTHER I-149 APPROPRIATIONS	$1,215,680	$15,088,669	25%
TOTAL I-149 RECOMMENDATIONS FUNDED FOR DPHHS	$4,983,576	$48,137,831	79%
APPROPRIATIONS IN HB 2 - STATE AUDITORS' OFFICE			
SMALL EMPLOYER PREMIUM ASSISTANCE - HB 667	$0	$7,570,376	12%
SMALL EMPLOYER TAX CREDITS - HB 667	0	5,176,330	9%
GRAND TOTAL APPROPRIATIONS	$4,983,576	$60,884,537	100%
SUBTOTAL LEGISLATIVE INITIATIVES	$1,400,000	$6,951,316	11%

Some appropriations for rate increases in Figure 3 include general fund. The legislature structured the appropriations from I-149 funds to delay use of revenues flowing into the health initiatives and Medicaid account so that the cash balance could reach $25 million as quickly as possible. The Office of Budget and Program Planning also pledged to give Medicaid and CHIP appropriations highest priority in establishing the order in which appropriations would be funded from the health initiatives and Medicaid account if forecast revenues were insufficient to fund all appropriations from the account. OBPP delivered a letter stating such intent to the Senate Finance and Claims Committee and provided copies of the letter to the Legislative Finance Committee. In response to the pledge from OBPP, the legislature removed language from HB 2 making the appropriations for the following divisions contingent on implementation of provider rate and direct care worker wage increases by July 15, 2005: Health Resources, Disability Services, Senior and Long Term Care, and Addictive and Mental Disorders.

The legislature appropriated nearly $61 from the health initiatives and Medicaid account. DPHHS received $48 million appropriated in HB 2 and HB 552 (raise Medicaid eligibility for children). The State Auditor received about $13 million for tax credits and other types of health insurance premium assistance for small employers.

The prescription drug and assistance program created by SB 324 received 26 percent, the largest share, of funding from the health initiatives and Medicaid account. Other types of expenditures and the funding each received are:

- Medicaid provider rate increases - $7.5 million
- Mental Health Services Plan and state Medicaid match - $6.5 million
- Medicaid direct care worker wage increases - $6 million
- CHIP matching funds - $4.5 million
- Medicaid services expansions (including HB 552) - $4 million
- Medicaid matching funds - $4 million

Medicaid Appropriations

Four different divisions within DPHHS administer Medicaid services and each receives separate appropriations. In total Medicaid services appropriations account for nearly $1.5 billion of the 2007 biennium appropriation for DPHHS, including $307 million general fund and $85 million state special revenue for state matching funds. That figure includes appropriations for Medicaid eligibility expansion for children made in HB 552 and appropriations for increased nursing home daily bed taxes and matching funds made in HB 749. However, that amount does not include nearly $57 million in federal reimbursement for Medicaid eligible services provided by state institutions.

Figure 4 shows the total base budget for Medicaid services, including each component of the change to services and the biennial amounts added for those changes. The majority of appropriation increases made by the legislature support caseload increases, which include growth in the number of persons eligible, higher service utilization, and pharmacy inflation. In fact, caseload and service utilization changes anticipated during FY 2006 and FY 2007 constitute 14 percent of the total 2007 biennial appropriation.

Figure 4
Appropriations for Medicaid Services for the 2007 Biennium by Type of Change

Component of Medicaid Appropriation	General Fund	SSR	Federal	Total	Percent of Total
FY 2004 Base Budget (Doubled)	$215,605,764	$30,949,000	$834,919,759	$1,081,474,523	74%
Caseload, Service Utilization, Inflation	41,001,573	7,843,911	158,428,863	207,274,946	14%
Rate Increases	2,022,510	33,730,766	82,187,873	117,941,148	8%
Service Expansions	3,036,511	7,048,481	29,601,535	39,686,526	3%
Direct Care Worker Wage Increases	1,726,180	4,906,182	13,754,597	20,386,958	1%
Federal Match Rate Reductions	53,904,756	155,915	(54,060,671)	0	0%
Efficiencies and Reductions	(4,148,559)	0	(8,706,498)	(12,355,057)	-1%
Subtotal Biennial Increases	$97,542,970	$53,685,254	$221,205,698	$372,934,522	26%
Total 2007 Biennium Appropriation	$313,148,734	$84,634,254	$1,056,125,457	$1,454,409,045	100%

After several biennia with few provider rate increases, the 2005 Legislature approved $118 million in rate increases and another $20 million for direct care worker wage increases. Together these increases constitute 9 percent of the 2007 biennial Medicaid appropriation.

Service and eligibility expansions add $40 million and are 3 percent of the total biennial appropriations. The most significant expansion is $17 million in state special revenue and federal funds for the Health Insurance Flexibility and Accountability (HIFA) waiver approved by the legislature.

Changes in the federal match rate increase general fund by nearly $54 million and reduce federal funds by a like amount. Efficiencies and cost savings reduce total Medicaid appropriations by $12 million total funds and $4 million general fund.

Medicaid Redesign

The 2003 Legislature adopted HJ 13, which requested that DPHHS undertake a study that would examine the various options available for redesigning the Montana Medicaid program, the Mental Health Services Plan (MHSP), the state Children's Health Insurance Program (CHIP), and other health programs administered by the department. HJ 13 also requested that DPHHS involve tribes in the redesign process; report periodically legislative interim committees; and prepare a report for the 2005 Legislature outlining options that may be undertaken to redesign the health programs administered by DPHHS.

The Governor appointed a 20-member advisory council (Governor's Health Care Advisory Council), which met several times and made 18 recommendations, including the recommendation to memorialize the work of the Council by placing in statute requirements to review progress on implementation of redesign recommendations.

DPHHS adopted all but one recommendation and prepared legislative and budget requests for the 2005 session. The legislature adopted all but one redesign proposal and added appropriations as requested by the executive.

HIFA Waiver

One of the most important fiscal and programmatic components of the redesign recommendations is the Health Insurance Flexibility and Accountability (HIFA) waiver. This type of waiver was promulgated by the Bush administration and does not exist in federal rule or in Title XIX of the Social Security Act. A HIFA waiver must:

- Include an expansion of health care benefits for the uninsured
- Include a public/private partnership
- Be cost neutral over the five year life of the waiver (i.e. cost no more in federal Medicaid funds than would have been paid without the waiver)

Use of Existing State Funds to Leverage More Federal Medicaid Match and Expand Health Care Services

The HIFA waiver approved by the legislature would "refinance" 100 percent state funded services by including those services and persons eligible for them in the state Medicaid program, and using the state funds for those programs as state match to draw down additional federal Medicaid funds. The proposal approved by the legislature will use about $3.5 million state funds to generate an additional $13 million in federal Medicaid funds for expansions in health services.

The HIFA waiver will include portions of the services provided by and the funding for the Mental Health Services Plan (MHSP) and the Montana Comprehensive Health Association (MCHA). MHSP provides prescription drugs and some other services to adults with a serious and disabling mental illness who have incomes under 150 percent of the federal poverty level. The MCHA provides insurance or premium assistance to some persons who have been denied health insurance coverage.

The source of state funding for these programs is tobacco taxes and tobacco settlement proceeds. MCHA receives a portion of tobacco settlement revenue allocated by 17-7-606, MCA. MSHP is funded with tobacco tax revenue generated by passage of I-149.

HIFA Waiver Health Services Expansion

The expansion of health services in the HIFA waiver includes:

- MHSP – add physical health benefit and "refinance" prescription costs for 2/3 of MHSP recipients without other health insurance
- MCHA – expand premium assistance program and/or raise premium assistance (recently declined from 55 percent to 45 percent)
- Add services for up to 300 children with serious emotional disturbance (SED) transitioning to adult services
- Expand CHIP type coverage
  - Expansion potentially funded with Medicaid funds rather than using federal CHIP grant
  - Number of additional children served undetermined at this time
- Assistance for low-income working adults transitioning off Medicaid

    - Number of additional adults served undetermined at this time
- Sometime within the five-year life of waiver, partnership with employers for premium assistance

Cost Neutrality for Federal Government

All waivers of federal Medicaid regulations must be cost neutral to the federal government, meaning that over the lifetime of the waiver, the federal Medicaid cost must be no greater than it would have been without the waiver. The Montana HIFA waiver must be cost neutral over a five year time period. If it is not, the state must repay excess cost of the federal government. Cost neutrality considerations constrained some of the HIFA expansions originally considered.

At this point in time, DPHHS will be allowed to use cost savings generated by an existing waiver that allows Montana to offer a "basic" package of Medicaid services to adults in the FAIM program, rather than all federally required Medicaid services. Additional cost neutrality components of the proposed waiver rely on the "logic" that Montana could have made other groups eligible for full Medicaid, but chose to limit benefits thereby saving federal funds. Finally, there will be a per person per month cap on the growth in Medicaid costs for populations covered by the waiver. If cost growth exceeds this cap, then service reductions or other changes in the waiver could be made to ensure cost neutrality.

The legislature passed SB 110 to implement the HIFA waiver and appropriated about $17 million in FY 2007 to support the waiver.

Other Major Redesign Proposals

Several other redesign proposals were considered and approved by the legislature. While the HIFA proposal is the most complex, other proposals, including additional Medicaid waiver proposals, are significant public policy issues.

Waiver of "Deeming"

The legislature approved the DPHHS appropriation for $100,000 state special revenue and its request to implement a waiver of deeming, which means that parental income and assets are not considered in determining whether a child is eligible for Medicaid. Montana already has two such waivers. One provides services to children who are developmentally disabled and the other provides services to children who are physically disabled. The proposed third waiver would be used to provide services to seriously emotionally disabled (SED) children.

All children in these waivers are entitled to regular medical state plan Medicaid services. In addition, the waiver allows home and community based services that are not typically covered by Medicaid. For example, respite services for parents who care for disabled children can be covered in a waiver.

This waiver will also establish some type of cost share for families, based on their ability to pay. The cost sharing will be applied to all waivers and not just the new proposal to cover SED children.

Dollar for Dollar Waiver

The legislature also approved the executive proposal to continue to review and potentially implement a dollar for dollar waiver that allows persons who purchase long-term care insurance to retain assets when eligibility for Medicaid nursing care services is considered. Under this concept, an amount of resources equal to the value of insurance paid out to the individual is disregarded in Medicaid eligibility determination. For instance, if the individual were to receive $10,000 of long-term care insurance payout, $10,000 of assets would be disregarded in determining financial eligibility.

Waiver to Sever Indian Health Services (IHS) from State Medicaid Plan

IHS is reimbursed with 100 percent federal funds for Medicaid covered services provided to Medicaid eligible persons. However, only services allowed by the Montana state Medicaid plan are eligible for reimbursement.

During the 2003 biennium there were several changes to the state Medicaid plan that eliminated certain services from the state plan in order to avoid cost over runs and to limit general fund costs. Those actions also eliminated Medicaid reimbursement to IHS for those services.

The legislature passed HB 452 to allow DPHHS to attempt to sever the link between the Medicaid state plan and Medicaid eligible reimbursement for IHS services for two basic reasons:

1) IHS Medicaid reimbursement is 100 percent federal
2) Limiting or eliminating coverage of certain Medicaid services can shift the cost to limited IHS funds or higher cost state plan services, which are partially state funded (30 percent general fund state match)

<u>Other Redesign Recommendations</u>

There are several other redesign recommendations including:

1) Enhance third party collections – DPHHS has undertaken efforts to determine whether Medicaid costs for some persons can be partially or fully offset by other insurance coverage that those persons may have such as private insurance and Medicare.
2) Develop a strategic plan for adult mental health services – The redesign process emphasized the need for and commitment to a long-term strategic plan for adult mental health services.
3) Medicaid eligibility field review – DPHHS initiated a review of Medicaid eligibility determination to ensure that field staff applies Medicaid eligibility criteria consistently and according to state and federal policies.
4) Implement pharmacy cost containment – DPHHS has undertaken several measures to reduce pharmacy cost growth, including establishing a preferred drug list, including actions such as:
   - Examining the potential of developing an evidence-based drug program to work in coordination with the preferred drug list
   - Exploring the feasibility of developing a state drug discount program
   - Examining the potential for re-importation of drugs from other countries
   - Pending the request of I.H.S or the tribes, seek mechanisms, including, if necessary, a 1915(b) freedom of choice waiver, to insure that IHS-eligible Medicaid participants on reservations have their prescriptions filled at IHS or tribal facilities

Look Back Period for Medicaid Eligibility

States are required by federal regulations to review transfers of assets for three years previous to the application for Medicaid eligibility. Certain asset transfers made to artificially impoverish a Medicaid applicant are illegal. The Governor’s Health Care Advisory Council recommended that DPHHS request federal approval to extend the look back period to 5 years rather than 3.

Asset transfers are usually considered in conjunction with estate planning in order to protect family assets. Since nursing home services can quickly deplete assets, some persons shift the costs of their long-term care to Medicaid. The average Medicaid cost for a person in a nursing home is $36,000 per year, not including one-time rate enhancements

HB 117 was introduced to allow DPHHS to request and implement a Medicaid waiver to extend the look back period to 5 years. However, the legislature did not pass the bill.

Medicare Modernization Act (MMA)

The fiscal, policy, workload, and human impacts related to the new Part D Medicare prescription drug benefit were other important issues considered by the legislature. The federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) was signed into law in December 2003. The most significant change due to passage of the MMA is the addition of an outpatient prescription drug benefit (Part D) for Medicare beneficiaries. Despite state and federal implementation issues, outpatient drug assistance is a significant benefit for Medicare beneficiaries. To date, there are many undefined aspects of the MMA, including the underlying data needed to calculate the fiscal effects.

The MMA initiates one of the most fundamental changes to Medicare in recent history – the addition of a prescription drug benefit. The Part D benefit will be implemented January 1, 2006, so MMA requirements for state administrative duties, payments for retiree coverage, and cost sharing will be effective for three quarters of the 2007 biennium. The 2005 Legislature dealt with several impacts of the MMA that are common to all states. At this point, is not possible to tell whether Montana will experience a net gain or loss in general fund costs due to offsetting aspects of the MMA.

Impacts to States

The major state fiscal and public policy issues considered by the legislature were:

- General fund savings due to federal assumption of prescription costs for some Medicare eligible persons currently eligible for and receiving Medicaid or Mental Health Services Plan (MHSP) prescription drug benefits
- General fund cost of state payments to the federal government for the Medicaid drug cost savings (the "clawback")
- Increased Medicaid costs due to new enrollees discovered during Part D outreach (the "wood work effect")
- General fund costs if the state opts to provide a "wrap around" benefit for potential or known Medicare prescription coverage gaps
- Administrative and workload impacts to provide low-income eligibility determination, beneficiary education, grievance resolution, and coordination with the Social Security Administration
- Potential for federal reimbursement of 28 percent of allowable costs for state health plan insurance coverage for drugs for Medicare eligible employees and retirees

Each of these issues was discussed in greater detail in the agency budget analysis written previous to the convening of the legislature. Very few changes related to the MMA occurred during the session. When the session adjourned many of the impacts of the MMA were still not quantifiable, but the legislature did take some actions.

Legislative Response

The legislature requested that DPHHS provide periodic reports to the Legislative Finance Committee to track workload and fiscal issues related to the MMA.

The Montana legislature passed SB 324, discussed in relationship to implementation of initiatives included in I-149. SB 324 established a program to assist persons in paying Part D premiums, and potentially to help pay part of the co-payments for drugs, depending on funding availability.

The legislature did not reduce appropriations for Medicaid pharmacy assistance or for drug assistance provided by the Mental Health Services Plan. Nor did the legislature add staff or funds for potential workload increases.

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.

Total Agency Funding
2007 Biennium Legislative Budget

Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
02 Human And Community Services	$ 52,369,112	$ 2,067,896	$ 402,673,162	$ 457,110,170	16.70%
03 Child & Family Services	52,388,305	3,767,102	55,835,638	111,991,045	4.09%
04 Director'S Office	2,314,248	601,787	19,948,983	22,865,018	0.84%
05 Child Support Enforcement	2,586,463	4,079,326	13,558,074	20,223,863	0.74%
06 Fiscal Services Division	4,456,018	720,148	6,804,094	11,980,260	0.44%
07 Public Health & Safety Div.	4,162,520	22,534,803	87,109,732	113,807,055	4.16%
08 Quality Assurance Division	4,595,686	549,588	11,804,602	16,949,876	0.62%
09 Operations & Technology	17,922,817	2,398,337	34,834,973	55,156,127	2.02%
10 Disability Services Division	93,734,752	4,190,928	164,146,241	262,071,921	9.58%
11 Health Resources Division	203,100,159	73,047,429	748,347,229	1,024,494,817	37.44%
22 Senior & Long-Term Care	98,135,562	45,666,479	312,795,284	456,597,325	16.68%
33 Addictive & Mental Disorders	88,788,343	18,376,831	76,220,154	183,385,328	6.70%
Grand Total	$ 624,553,985	$ 178,000,654	$ 1,934,078,166	$2,736,632,805	100.00%

DPHHS is funded by general fund, state special revenue, and federal funds. The percentage of general fund remains relatively constant, providing about 23 percent of the FY 2004 base budget and through the 2007 biennium budget, although general fund outlays grow nearly $128 million in the 2007 biennium. General fund changes are primarily related to Medicaid match rate changes and to Medicaid caseload and service utilization changes.

State special revenue increases from 3 to 7 percent of the total budget over the same time period and federal funds decrease from 73 to 70 percent. The two most significant increases in state special revenue are due to the appropriation of tobacco tax state special revenue (I-149) and appropriations for continuation of the hospital bed tax. Additionally, $12 million in one-time expenditures supported by a diversion of tobacco settlement proceeds, which terminated at the end of the 2005 biennium, were removed from the base budget, but the full amount of tobacco settlement revenue is appropriated over the 2007 biennium for the purposes originally established in 17-6-606, MCA.

Federal funds support about 70 percent of the 2007 biennium appropriation for DPHHS. Federal funding is allocated among more than 140 individual funding sources. Figure 5 shows 14 federal funding sources that contribute more than $13 million over the biennium. Together Medicaid and food stamp federal appropriations are $1.3 billion and constitute over 51 percent of the total 2007 biennium appropriation for DPHHS. Another significant source is the federal indirect cost pool funds to pay a share of overhead costs that must be distributed among funding sources. If costs assigned to the Medicaid and food stamp programs, as well as other federal funding sources, were disaggregated from the indirect pool, the percentage of total funding attributed to individual federal sources would rise. Federal funding sources that contribute less than $13 million over the biennium account for the remaining 4 percent of total biennial appropriations.

Figure 5
Major Federal Appropriations for DPHHS - 2007 Biennium

Federal Source	Biennial Amount	Total DPHHS 2007 Biennium Appropriation Percent	Cumulative
Medicaid Services and Administrative Match	$1,183,991,679	43%	
Food Stamp Benefits, Outreach and Direct Administration	211,393,997	8%	51%
Cost Allocated Administrative Costs	98,640,486	4%	55%
Temporary Assistance for Needy Families (TANF) Grant	65,659,783	2%	57%
Childcare Funding	43,732,874	2%	59%
CHIP Federal Matching Funds	40,123,578	1%	60%
Low-income Energy Assistance/Weatherization	30,748,385	1%	61%
Women, Infants, Children (WIC) Feeding Program	28,057,196	1%	62%
Foster Care/Subsidized Adoption Matching Funds	25,437,197	1%	63%
Vocational Rehabilitation	21,458,000	1%	64%
Bioterrorism/Hospital Emergency Preparedness	19,702,846	1%	65%
Child and Adult Food Care Program	19,281,877	1%	65%
Addiction Treatment and Prevention Block Grant	13,855,505	1%	66%
Child Support Enforcement Matching Funds	13,413,366	0%	66%
Balance of Federal Funding for DPHHS	118,581,397	4%	70%
Total Biennial Federal Appropriations for DPHHS	$1,934,078,166		
Total DPHHS Biennial Appropriation	$2,736,632,805		

Biennial Budget Comparison

General fund support for the department increases 20 percent or $104 million when the 2005 and 2007 biennia are compared (Figure 6). This growth is primarily due to:

- Increases in state match for Medicaid because of:
  - Discontinuation of the enhanced federal Medicaid rate
  - Reductions in the federal Medicaid rate that are expected in FY 2006 and 2007
- Medicaid service utilization and eligibility increases
- Provider rate and direct care worker wage increases, primarily for Medicaid services providers

Figure 6
2005 Biennium Compared to 2007 Biennium
Department of Public Health and Human Services

Budget Item/Fund	2005 Biennium	2007 Biennium	Percent of Total	Change	Percent Incr/Decr
FTE	2,755.01	2,787.46		32.45	
Personal Services	$233,244,240	$259,063,023	5.1%	$25,818,783	11.1%
Operating	175,929,841	242,317,664	13.2%	66,387,823	37.7%
Equipment	2,196,210	924,710	-0.3%	(1,271,500)	-57.9%
Capital Outlay	28,398	0	0.0%	(28,398)	-100.0%
Grants	87,121,936	100,467,441	2.7%	13,345,505	15.3%
Benefits/Claims	1,735,176,425	2,132,662,355	79.2%	397,485,930	22.9%
Debt Service	1,102,971	1,197,612	0.0%	94,641	8.6%
Total Costs	$2,234,800,021	$2,736,632,805	100.0%	$501,832,784	22.5%
General Fund	$520,511,199	$624,553,985	20.7%	$104,042,786	20.0%
State Special	86,194,813	178,000,654	18.3%	91,805,841	106.5%
Federal Funds	1,628,094,009	1,934,078,166	61.0%	305,984,157	18.8%
Total Funds	$2,234,800,021	$2,736,632,805	100.0%	$501,832,784	22.5%

- Overtime, holidays worked, and shift differential pay for state institutions

State special revenue support for the department increases almost 107 percent due primarily implementation of I-149 and appropriation of tobacco settlement revenues that were removed from the base budget as one-time expenditures.

Federal funds increase due to increases in caseload primarily for Medicaid services and administration ($76 million) and food stamp benefits ($59 million). Increases in federal categorical grants and receipt of several new grants also contribute to the federal funding growth.

The cost of benefits and claims rises 23 percent when the two biennia are compared, primarily due to caseload increases for programs such as food stamps, Medicaid, TANF, childcare, foster care, and subsidized adoption programs. Grant costs increase 15 percent over the same time period due to increases in the child and adult food care program and various categorical grants. Operating costs increase $66 million (38 percent) due to increases in consulting and professional services and taxes ($1.6 million for MDC bed day utilization fee).

Executive Budget Comparison

The following table compares the legislative budget for the 2007 biennium to the budget requested by the Governor, by type of expenditure and source of funding.

Executive Budget Comparison

Budget Item	Base Budget Fiscal 2004	Executive Budget Fiscal 2006	Legislative Budget Fiscal 2006	Leg – Exec. Difference Fiscal 2006	Executive Budget Fiscal 2007	Legislative Budget Fiscal 2007	Leg – Exec. Difference Fiscal 2007	Biennium Difference Fiscal 06-07
FTE	2,755.01	2,729.18	2,783.46	54.28	2,739.18	2,787.46	48.28	
Personal Services	114,038,582	120,631,095	126,500,603	5,869,508	121,118,082	132,562,420	11,444,338	17,313,846
Operating Expenses	88,621,395	107,939,128	118,194,161	10,255,033	110,527,290	124,123,503	13,596,213	23,851,246
Equipment	376,355	512,355	512,355	0	412,355	412,355	0	0
Capital Outlay	0	0	0	0	0	0	0	0
Grants	42,470,810	48,094,243	50,464,243	2,370,000	49,393,198	50,003,198	610,000	2,980,000
Benefits & Claims	821,366,107	1,009,087,797	1,045,983,945	36,896,148	1,078,982,869	1,086,678,410	7,695,541	44,591,689
Transfers	0	0	0	0	0	0	0	0
Debt Service	598,806	598,806	598,806	0	598,806	598,806	0	0
Total Costs	**$1,067,472,055**	**$1,286,863,424**	**$1,342,254,113**	**$55,390,689**	**$1,361,032,600**	**$1,394,378,692**	**$33,346,092**	**$88,736,781**
General Fund	248,448,589	302,608,283	310,698,339	8,090,056	311,302,363	313,855,646	2,553,283	10,643,339
State/Other Special	36,553,605	84,714,613	89,115,514	4,400,901	94,497,420	88,885,140	(5,612,280)	(1,211,379)
Federal Special	782,469,861	899,540,528	942,440,260	42,899,732	955,232,817	991,637,906	36,405,089	79,304,821
Total Funds	**$1,067,472,055**	**$1,286,863,424**	**$1,342,254,113**	**$55,390,689**	**$1,361,032,600**	**$1,394,378,692**	**$33,346,092**	**$88,736,781**

The legislative budget is about $11 million general fund and $80 million federal funds greater than the executive budget request and $1 million state special revenue less than the executive budget request. The most significant difference between the legislative and executive budget is due to legislative initiatives that add about $7 million in general fund and $7 million in state special revenue for various legislative-spending priorities. The legislature requested that the narrative accompanying HB 2 stress that these initiatives were formed after review of the executive budget request, public testimony, and requests from other stakeholders and constituents, and consideration of issues raised by legislative staff, and that the priorities reflected what legislators deemed to be important and necessary additions to the executive budget proposal.

Figure 7 shows the legislative initiatives, including the biennial appropriations of general fund or state special revenue (I-149 tobacco tax increase revenue) by type and purpose of expenditure as well as the sources of revenue that were identified to support the increases.

The Health and Humans Services Joint Appropriation Subcommittee identified about $14 million in additional general fund revenue above the level included in HJR 2, the revenue resolution, and used $7 million to fund initiatives it considered important. The legislature added state funds in five primary areas:

1. Direct care worker wage increases
2. Provider rate increases
3. Service and eligibility expansions
4. Funding switches to allow increases in monthly cash assistance levels
5. Staff and operating costs to either enhance revenue or increase efficiency and appropriate use of services

Figure 7

Legislative Initiatives - Appropriations and Revenue to Fund Initiatives

Appropriations/Revenue Sources	Biennial Amount General Fund	I-149
APPROPRIATIONS		
Direct Care Worker Wage Increases - 75 Cents an Hour Plus Benefits at 25 Cents an Hour		
Nursing Homes and Aging/Disabled Community	$1,000,000	$3,000,000
Children's Mental Health	0	750,000
Subtotal Direct Care Worker Wage Increases	$1,000,000	$3,750,000
Provider Rate Increases		
Physician Rate Increase to 85% of Medicare Rate	$400,000	$1,200,000
Foster Care Parents 4%	384,000	0
Foster Care Group Homes 4%	204,000	0
Subtotal Rate Increases	$988,000	$1,200,000
Eligibility and Service Increases		
Raise Medicaid Asset Test - Children (Appropriation in HB 552)	$0	$1,876,316
In-Home Caregiver Services - Local Agency Grants*	600,000	0
Meals on Wheels*	500,000	0
Energy Ombsudsman Services*	600,000	0
Extended Employment - Follow Along	280,000	0
Extended Employment - Sheltered	140,000	0
Independent Living	200,000	0
Part C	180,000	0
Subtotal Eligibility and Service Increases	$2,500,000	$1,876,316
Funding Switch to Support TANF Benefit Increase		
Child Care	$2,400,000	$0
Subtotal Funding Switch for TANF Benefit Increase	$2,400,000	$0
Operating Costs, Including Funding for Staff		
Computer Specialist for the Blind	$130,000	$0
Tribal Staff	52,000	0
Subtotal Operating Costs, Staff	$182,000	$0
Total Appropriations	$7,070,000	$6,826,316
REVENUE TO SUPPORT APPROPRIATIONS - NOT INCLUDED IN HJR 2		
LIEAP Proposal - Executive Budget Reduced	$7,400,000	$0
Additional Income Tax - Tax Compliance Auditors	3,600,000	0
I-149 Funds in Excess of Executive Request	0	2,400,000
Revised Executive Medicaid Estimates	1,800,000	0
Estimated I-149 Revenues Above Executive Request	0	1,400,000
Displaced Homemaker Funding Switch	400,000	0
Medicaid Savings due to Added Management Staff and Other Legislative Funded Initiatives	500,000	0
Income Tax Increase due to State Employee Pay Plan	200,000	0
Income Tax Increase due to Direct Care Worker Wage Increases	100,000	0
Savings in Legislative Travel/Council of State Goverbnment. Dues	150,000	0
Total Revenue	$14,150,000	$3,800,000
Revenue Over (Under) Increases	$7,080,000	($3,026,316)
GENERAL FUND ALLOCATED TO I-149 PROPOSALS		
General Fund Reallocated from Legislative Initiatives to Offset First 6 Months of Cost of Proposals in Executive Budget and Legislative Initiatives	$1,700,000	
General Fund In Excess of Legislative Initiatives	$5,380,000	

*These appropriations are one-time only.

Appropriations for direct care worker wages are the largest single legislative initiative, increasing appropriations by nearly $5 million above the executive request. Wage increases are appropriated for direct care workers in nursing homes, home and community based services for aged and disabled persons, and for children's mental health providers. Language was added in HB 2 restricting these appropriations for direct care worker wage increases with the legislative intent that wages be raised 75 cents an hour and benefits be raised 25 cents an hour. If appropriation amounts are insufficient to fund the total intended increase, lowest paid workers' wages are to be raised first. The legislature also added a reporting requirement so that legislators could review documentation regarding initial and increased wages throughout the biennium and monitor implementation of the appropriation.

Provider rate increases for Medicaid physician rates, foster care parents, and foster care group homes are $2 million greater than the executive budget request. The legislature wanted to ensure access to primary care physicians for Medicaid eligible persons to provide the best preventive, effective care in the most cost efficient setting. Foster care parents and group home rate increases were made to address concerns raised by foster parents and foster care providers during public testimony regarding the adequacy of reimbursement rates.

Eligibility and service increases add $4.5 million. Raising the asset limit for Medicaid eligibility for children (from $3,000 per family to $15,000) was enacted in HB 552. It will extend health coverage to an estimated more 3,800 children.

Two appropriations were made to support community services for the elderly and disabled provided by local, non-state entities. In-home caregiver services and Meals on Wheels appropriations are one time only and will support services that help persons remain in their own homes and in the community.

The legislature provided $0.6 million general fund for the biennium to support energy ombudsman or case management-type services at Human Resource Development Councils to assist low-income individuals seeking emergency energy assistance.

Four appropriations were made to support services for the disabled – Part C Early Intervention, independent living, and two for extended employment. The extended employment appropriations will serve about 60 individuals or one-half the waiting list in follow-along services and 10 individuals or one-half the waiting list in sheltered work services. Appropriations for independent living will provide services to an additional 78 individuals in the eastern Montana region that includes six reservations. Funds for Part C Early Intervention will fund family support and education services for 18 more young children with disabilities.

The legislature made a funding switch moving funds for some childcare from federal TANF (Temporary Assistance for Needy Families) funding to general fund. The funding switch was made in order to increase monthly cash assistance benefit levels. It is estimated that this $2.4 million increase in cash assistance funding is adequate to increase the average monthly benefit level for a family of three by about $50 per month.

Funds appropriated to support FTE and operating costs that provide direct support for persons account for less than 3 tenths of 1 percent of the legislative initiatives explained in Figure 7. The computer specialist for the blind will assist blind and visually impaired individuals in usage of computer technology adapted to their needs. The tribal program staff will assist Indian Health Services (IHS) providers in claiming allowable federal Medicaid pass through funds in order to extend IHS funding for persons who are not Medicaid eligible or for services that are not Medicaid eligible.

Finally, the legislature allocated $1.7 million general fund to offset I-149 appropriations it accepted from the executive proposal and from its own initiatives to delay expenditures of the majority of I-149 appropriations until January 1, 2006. That action was taken to develop a reserve balance in the health initiatives and Medicaid state special revenue account to help sustain new programs funded from the account. The legislature added language to HB 2 delaying expenditures from certain I-149 appropriations until December 1, 2005, or until the health and Medicaid initiatives state special revenue account reached a $25 million balance. The legislature also amended 53-6-1201(4), MCA and imposed the following requirements on both the prescription drug program (SB 324) and the premium assistance and tax credits for health insurance costs for small employers (HB 667):

> "On or before July 1, the budget director shall calculate a balance required to sustain the program in subsection (3)(b) for each fiscal year of the biennium. If the budget director certifies that the reserve balance will be sufficient, then the department may expend the revenue for the program as appropriated. If the budget director determines that the reserve balance of the revenue will not support the level of appropriation, the budget director shall notify the department. Upon receipt of the notification, the department shall adjust the operating budget for the program to reflect the available revenue as determined by the budget director."

The legislature identified funding to support each of the legislative funding initiatives. The fund source and rationale for applying it to the legislative initiatives is:

- LIEAP – a reduction of $7.4 of the $8.4 million general fund appropriation for Low Income Energy Assistance (LIEAP) that was included in the executive budget request
- Tax compliance auditors funded in the Department of Revenue – an estimate of the additional income tax revenue that would be generated due to addition of audit staff (not included in HJ 2)
- Revised Medicaid estimates – the executive budget request was changed twice in February 2005 for revised Medicaid estimates; the second estimate was $1.8 million general fund lower than the first request

- I-149 funds in excess of executive request – HJ 2 revenue estimates of I-149 tobacco tax revenue are higher than the funds requested in the executive budget
- Displaced homemaker funding switch – the executive budget originally requested general fund and then switched its request to ESA (Employment Security Account) state special revenue, freeing up the general fund
- Medicaid savings – the legislature added management analyst staff to the Medicaid program and to assist IHS in claiming allowable reimbursements; additional staff will allow the department to reduce Medicaid services costs due to efficiencies and provision of appropriate care
- Income tax increases not in HJ 2 – state employee pay plan raises and direct care worker wage increases are estimated to enhance income tax collections
- Savings in travel and dues – the legislature did not approve dues for the Council of State Governments

Some of the remaining difference between the legislative and executive budgets, after consideration of legislative initiatives, is due to approval of revisions by the executive for updated Medicaid caseload projections and state match funding requests which added $6 million total funds, including about $2 million general fund and nearly $3 million in tobacco tax state special revenue (I-149). Additionally, the legislature approved additional state special revenue ($23 million) for anticipated increases in the hospital inpatient bed day tax due to passage and approval of SB 120.

Some of these increases were partially offset by withdrawal of some executive proposals totaling $8 million over the biennium. The requests that were withdrawn include:

- $1 million in private donation state special revenue and $4 million in federal matching funds for the Children's Health Insurance Program (CHIP)
- $2 million in state special revenue to support expansion of the nurse first call in service (no private companies expressed an interest in participating in the contract
- $1 million in federal funds for CHIP match to provide funding for mental health services for seriously emotionally disturbed children

Language

The legislature approved the following language for inclusion in HB2:

The Governor has indicated his intent to line-item veto the language illustrated in *italic*. However, his authority to do so is questioned and may be challenged through legal action.

"*Appropriation for Human and Community Services Division, Child and Family Services Division, Director's Office, Child Support Enforcement Division, Fiscal Services Division, Public Health and Safety Division, Quality Assurance Division, Operations and Technology Division, Disability Services Division, Health Resources Division, Senior and Long-Term Care Division, and Addictive and Mental Disorders Division include over $70 million annually to support contracts with local, nonstate public and private entities that provide either discreet, distinct services and benefits directly to individuals or broad direct and indirect public benefits to the citizens of Montana. These appropriations have been made as requested by the department in either the operating category of expenditure or the grants category of expenditure. The department is directed to work with the department of administration, the legislative branch, and the office of budget and program planning to help establish accounting guidance that allows the executive branch to more consistently and uniformly account for appropriations that provide direct and indirect benefits to persons. The department and department of administration shall report to the legislative finance committee and members of the 2005 legislative joint appropriations subcommittee on health and human services by September 1, 2005, and every 6 months thereafter until completion of the project*

Rate increases and services funded in Direct-Care Worker Salary Increase from 25th to 35th Percentile, Physician Rate Increase, Nonhospital Provider Rate Increase, Dental Access, Direct-Care Worker Wage Increase, and Provider Rate Increase – Nursing Home and Community Services should be established and implemented at levels that will fully expend the appropriations beginning no later than July 15, 2005, and ending June 30, 2007. Rate increases should be structured so that funding in Direct-Care Worker Salary Increase From 25th to 35th Percentile, Physician Rate Increases, Non hospital

Provider Rate Increase, Dental Access, Direct-Care Worker Wage Increase, and Provider Rate Increases—Nursing Home and Community Services is expended incrementally throughout the 2007 biennium."

Other 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.

Senate Joint Resolution 41 - SJR 41 requests an interim legislative study of the mental health crisis response system. The study received a ranking high enough to be undertaken by the Interim Children And Families Committee during the 2007 biennium.

House Bill 5 – HB 5 appropriates funds for capital projects. Several projects for the department were approved including:

- Montana Developmental Center, housing for individuals with high-risk behaviors, $2,529,290
- Demolish abandoned buildings, $1,741,250
- Facility improvements, Montana State Hospital, $592,523
- Facility improvements, Montana Developmental Center, $218,044
- Stabilize old administration building, Montana Developmental Center, $179,100
- Special care unit renovations, Eastern Montana Veterans' Home Glendive, $475,000 state special revenue
- Facility renovations and improvements, Montana Veterans' Home Columbia Falls, $465,000 state special revenue
- Construct chapel, Montana State Hospital, $350,000 donations and grants

House Bill 183 - HB 183 authorizes the department to pursue a Medicaid waiver for services to seriously emotionally disturbed children.

House Bill 332 – HB 332 provides a general fund supplemental appropriation of $903,255 to the department for low-income energy assistance.

House Bill 411 – HB 411 clarifies the allocation of tobacco funds to veteran's homes after passage and approval of I-149 that raised tobacco taxes to maintain the share of tobacco taxes allocated for veterans' services prior to I-149.

House Bill 452 – HB 452 implements recommendations from the Governor's Health Care Advisory Council, allowing the department to seek a waiver to exempt Indian Health Services providers from Medicaid state plan changes that could reduce reimbursement to tribal services providers.

House Bill 529 – HB 529 provides for a child support pass-through payment and income disregard for TANF recipients. The legislature provided almost $1.5 million federal funds for the biennium to support the provisions of this legislation.

House Bill 552 – HB 552 revises the asset test used to determine children's eligibility for the Medicaid program by raising the family asset limit from $3,000 to $15,000. HB 552 appropriates $2 million of I-149 state special revenue as state match and HB 2 includes the federal matching funds. About 3,800 children are expected to become eligible for Medicaid due to the change.

House Bill 667 – HB 667 provides for purchasing pools, premium assistance, and tax credits for small employers providing health insurance. HB 667 establishes the programs authorized in the passage of I-149. The program is administered by the State Auditor. DPHHS received an appropriation to support 1.00 new FTE to develop and implement a Medicaid waiver for health insurance premium assistance for workers with incomes below 200 percent of the federal poverty level.

House Bill 738 – HB 738 requires the department to create an advisory commission on provider rates and services and that the commission review and make recommendations concerning services provided by contract to children and adults in a community setting, the costs of those services, and reimbursement rates paid to the contract providers of those services.

House Bill 745 – HB 745 provides a supplemental appropriation of $4,526,242 general fund to the department. The bulk of the supplemental appropriation ($3.7 million) is related to a short fall in the Child and Family Services Division due to loss of federal funds related to compliance issues and a decline in eligibility for federal funds. The remainder of the supplemental appropriation ($857,058) supports the Child Support Enforcement Division and is related to a decrease in state special revenue collections from retention of the state share of child support recoveries for families receiving cash assistance benefits and a decline in federal incentive payments paid to Montana.

House Bill 749 – HB 749 extends and raises the nursing home bed tax, which would have expired at the end of FY 2005. The tax revenue is used as state Medicaid match to pay higher Medicaid nursing home rates. HB 749 appropriates $32 million over the 2007 biennium and raises the daily rate from $5.30 in FY 2005 to $8.30 in FY 2007.

Senate Bill 29 – SB 29 allows certain individuals convicted of a felony drug offense to be eligible for participation in the Temporary Assistance for Needy Families (TANF) and Food Stamp programs. This legislation also allows the department to make rules regarding random drug testing or reporting requirements, and graduated sanctions related to eligibility of these individuals for the programs mentioned above. The legislature provided $404,148 federal funds each year of the biennium to support this change in eligibility.

Senate Bill 33 – SB 33 eliminates the requirements for a unified budget for the Interagency Coordinating Council for Prevention Programs and for submission of the budget to the legislature and interim and standing committees.

Senate Bill 41 - SB 41 implements guiding principles recommended by the Governor's Health Care Advisory Council for use by DPHHS when it considers budget reductions or increases. Principles specified include:

- Protecting those persons who are most vulnerable and most in need, as defined by a combination of economic security and medical circumstances
- Giving preference to the elimination of an entire Medicaid program or service, rather than sacrifice the quality of care for several programs or services through dilution of funding
- Giving priority to retaining those service that protect life, alleviate sever pain and prevent significant disability

Senate Bill 42 – SB 42 clarifies that the children's system of care and service area authority must take into account each other's recommendations with regard to planning and implementation of children's mental health services.

Senate Bill 82 – SB 82 revises the definition of intermediate care facility and increases the bed day utilization fee from 5 to 6 percent. This legislation impacts the Montana Developmental Center in Boulder.

Senate Bill 85 – SB 85 creates an income tax check off to support the end stage renal program. HB 2 includes $48,000 state special revenue over the biennium for revenue anticipated from the check off.

Senate Bill 93 – SB 93 clarifies when DPHHS must provide monthly and fiscal yearend Medicaid and budget status reports to the Legislative Finance Committee.

Senate Bill 110 – SB 110 allows DPHHS to seek a HIFA (Health Insurance Flexibility and Accountability) Medicaid waiver, which is discussed in greater detail in the agency overview.

Senate Bill 120 – SB 120 continued the daily utilization hospital bed tax, which would have expired at the end of FY 2005. The proceeds from the tax are used as state match to increase Medicaid rates paid to hospitals. HB 2 includes $83 million over the biennium to implement SB 120.

Senate Bill 127 – SB 127 makes changes to statutes allowing DPHHS to request and implement home and community based Medicaid waiver services. The bill also implements part of the Medicaid redesign recommendations to allow a home and community based waiver for adults with a serious and disabling mental illness. HB 2 includes an appropriation in FY 2007 to support 105 community services slots for the new waiver.

Senate Bill 154 – SB 154 makes several changes to CHIP program administration including:

- Allowing DPHHS to administer the program
- Requiring that if DPHHS contracts for administration of the program that:
    - No more than 12 percent of premium payments can be used for administrative and risk reserve costs
    - The contractor may retain unspent risk reserve funds, but must return 50 percent of the balance remaining after all claims costs have been paid

Senate Bill 324 – SB 324 provides for a prescription drug program and prescription drug technical assistance. Elements of the program are discussed in more detail in the agency narrative.

Senate Bill 385 – SB 385 does several things. It changes the Mental Health Ombudsman to a Mental Health and Family Ombudsman by adding duties related to providing assistance to family members with complaints or grievances related to child protective services. Also, this legislation clarifies that the ombudsman is a health oversight agency and some provisions related to the ombudsman's authority to receive confidential information. As of the date of this writing, this bill has been vetoed by the Governor and legislators are being polled to determine whether or not the Governor's veto will be overridden.

Senate Bill 433 - SB 433 authorizes a pilot Medicaid program for some individuals with developmental disabilities. This pilot program will allow individuals enrolled in Medicaid home and community based waiver services to place up to one-half the funding allocated but not expended to meet their basic health and safety needs into an individual account for future use. The pilot is limited to 50 individuals. Through provisions in SB 433, the department is authorized to determine the conditions and operating features of the pilot program.

Senate Bill 499 – SB 499 makes several changes to statutes governing mental health services. It:

- Removes the requirement that Service Area Authorities (SAA's) be risk bearing entities for management of public mental health services in regions of the state designated by DPHHS
- Requires that SAA's collaborate with DPHHS in service planning
- Allows DPHHS to contract with SAA's for planning and oversight of mental health services if the department determines that SAA's are able to do so
- Requires a majority of an SAA governing board to be mental health consumers and family members of consumers

Agency Discussion

Federal Poverty Level Index

Figure 8 shows the 2005 federal poverty level index by family size for various levels of poverty. This index is published each calendar year and updated in February or March. Generally the federal poverty level index increases each year between two and five percent.

Throughout the DPHHS narrative there are references to program financial eligibility based on an established level of poverty. The levels of poverty shown in Figure 8 reflect most of the financial eligibility levels for DPHHS programs. CHIP financial eligibility is currently 150 percent of the poverty level. Financial eligibility for some Medicaid programs for low-income children and

Figure 8

2005 Federal Poverty Index

Levels of Poverty by Family Size

Family Size	Percent of Federal Poverty Level 30%	100%	133%	150%	175%	200%
1	$2,871	$9,570	$12,728	$14,355	$16,748	$19,140
2	3,849	12,830	17,064	19,245	22,453	25,660
3	4,827	16,090	21,400	24,135	28,158	32,180
4	5,805	19,350	25,736	29,025	33,863	38,700
5	6,783	22,610	30,071	33,915	39,568	45,220
6	7,761	25,870	34,407	38,805	45,273	51,740
7	8,739	29,130	38,743	43,695	50,978	58,260
8	9,717	32,390	43,079	48,585	56,683	64,780
Each Additional Person	978	3,260	4,336	4,890	5,705	6,520

pregnant women is established at 100 percent and 133 percent of the federal poverty level. MHSP financial eligibility is established at 150 percent of the poverty level. Chemical dependency services are provided to individuals with incomes below 200 percent of the federal poverty level. The eligibility and benefit level for TANF cash assistance is established at about 30 percent of the 2002 federal poverty level index. However, the department must increase the cash assistance benefit level to 33 percent of the 2005 federal poverty level by October 1, 2005, if it wishes to expend federal TANF funds or state maintenance of effort funds on certain items.