



MONTANA LEGISLATIVE BRANCH

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DATE: November 15, 2006

TO: Legislative Finance Committee

FROM: Lois Steinbeck

RE: Health and Medicaid Initiatives Account Fund Balance

The Legislative Finance Committee (LFC) considered a bull dog report on the Montana State Hospital and heard a report on the potential supplemental appropriation for the Department of Public Health and Human Services (DPHHS) at its October meeting. A point of interest for the committee in both of those reports was the use of health and Medicaid initiative account (account) funds and potential balances in the account. The committee requested that staff prepare a report on the account.

The account was created by the passage of voter initiative 149 (I-149) in the November 2004 election. The initiative raised tobacco taxes, directed deposit of the portion of the increased proceeds to the account, and specified the uses of account funds. The statute governing the account and its uses is shown in Attachment 1.¹

Figure 1 shows the projected fund balance in the account, estimating a \$13 million ending fund balance at the end of FY 2009. FY 2006 amounts are actual experience. FY 2007 expenditures are based on appropriated levels in some instances and DPHHS and LFD staff projections of what will be expended in Big Sky Rx, Insure Montana (health premium assistance), and the Children's Health Insurance Program (CHIP). 2009 biennium expenditures list the executive budget request. The projections adopted by the Revenue Oversight Taxation and Transportation Committee are used for FY 2007 through FY 2009.

¹ The 2005 Legislature did not amend any of the statutory changes enacted by I-149.

Figure 1
Health and Medicaid Initiatives Fund Balance - FY 2006 to FY 2009 Budget Request
Cigarette Tax Revenue Dedicated to Health Initiatives

Fund Balance					
Deposits/Expenditures	FY 2006	FY 2007*	FY 2008*	FY 2009*	Percent of Total
Beginning Fund Balance	\$2,341,021	\$2,008,887	\$31,255,712	\$22,650,964	
Revenue/Transfers In					
Cigarette Tax	\$17,947,190	\$38,075,000	\$37,403,000	\$36,902,000	
Expenditures					
Medicaid Provider Rates	\$8,265,643	\$8,043,543			
2007 Biennium Annualization			\$10,517,052	\$10,275,497	22.2%
2009 Biennium			5,260,284	5,772,683	12.5%
Big Sky Rx	931,071	4,861,324	8,750,000	8,750,000	18.9%
Insure Montana (Premium Assist.)	615,450	5,116,001	6,525,515	6,525,413	14.1%
Medicaid Service Expansion	282,620	3,706,547	4,368,065	4,392,684	9.5%
Health Insurance Tax Credits	1,763,349	3,976,330	4,350,276	4,350,286	9.4%
MHSP/HIFA Waiver	3,152,605	3,347,395	3,193,341	3,193,360	6.9%
CHIP	902,565	2,129,572	2,749,970	2,672,901	5.8%
Federal Medicaid Match Change	0	0	267,560	256,185	0.6%
Other	25,000	75,000	25,685	25,766	0.1%
Subtotal Expenditures	\$15,938,303	\$31,255,712	\$46,007,748	\$46,214,775	100.0%
Annual Increase		96.1%	47.2%	0.4%	
Ending Fund Balance	\$2,008,887	\$31,255,712	\$22,650,964	\$13,338,189	

*Revenue based on estimates adopted by the Revenue Oversight Taxation and Transportation Committee. Expenditures are based on executive budget request.

The largest share of account funds have been used for Medicaid provider rate increases - about 34.7 percent when both biennia are combined. Big Sky Rx (premium assistance for Medicare drug insurance) and Insure Montana (health insurance premium assistance for small employers) constitute the next largest share at a combined 33 percent. The next largest expenditures, Medicaid service expansions and health insurance tax credits, are about 9.5 percent each. Other uses of the account comprise less than 7.0 percent each.

Two programs are projected to underspend FY 2007 appropriations – Insure Montana and Big Sky Rx. Insure Montana could be as much as \$1 to \$1.5 million underspent, while Big Sky Rx will use less than 42 percent of its FY 2007 appropriation. The Big Sky Rx budget request is highlighted in the LFD budget analysis because the level of enrollment would need to increase more than 400 percent over the last eight months of FY 2007 to reach the level projected in the executive budget for the start of FY 2008, from 3,196 in October 2006 to 19,672 by July 1, 2007.

The executive request includes a 2.5 percent rate increase for most Medicaid providers in the first year of the biennium, with the main exception being developmental disability services. While the executive budget calls the DD funding increase a rate rebase, it would adjust rates and increase overall rate compensation without adding new services. Some DD providers would receive a 4.6 percent rate increase in the first year of the biennium rising to 5.5 percent in the second year of the biennium. Other DD providers would receive a 10.0 percent rate increase in the first year of the biennium, rising to 12.0 percent in the second year.

Medicaid expansions include:

- o Eligibility changes that raise the family asset limit from \$3,000 to \$15,000 for children
- o The home and community based waiver services in the Senior and Long-Term Care and Addictive and Mental Disorders Divisions

Increases are included for Insure Montana and the health insurance tax credit. The amount budgeted for the Mental Health Services Plan (MHSP) remains constant from base year expenditures. If the Health Insurance Flexibility and Accountability (HIFA) waiver is approved, the MHSP funding will be used as state match for expanded health services for certain low income populations. The amount allocated to CHIP in the executive budget more than doubles from base budget expenditures.

The \$13.4 million ending fund balance and FY 2010 revenues will be sufficient to continue funding at the level included in the executive budget. However, the same will not be true in FY 2011.

ATTACHMENT 1

HEALTH AND MEDICAID INITIATIVES ACCOUNT STATUTE

53-6-1201. Special revenue fund -- health and medicaid initiatives. (1) There is a health and medicaid initiatives account in the state special revenue fund established by 17-2-102. This account is to be administered by the department of public health and human services.

(2) There must be deposited in the account:

(a) money from cigarette taxes deposited under 16-11-119(1)(c);

(b) money from taxes on tobacco products other than cigarettes deposited under 16-11-119(3)(b); and

(c) any interest and income earned on the account.

(3) This account may be used only to provide funding for:

(a) the state funds necessary to take full advantage of available federal matching funds in order to maximize enrollment of eligible children under the children's health insurance program, provided for under Title 53, chapter 4, part 10, and to provide outreach to the eligible children. The increased revenue in this account is intended to increase enrollment rates for eligible children in the program and not to be used to support existing levels of enrollment based upon appropriations for the biennium ending June 30, 2005.

(b) a new need-based prescription drug program established by the legislature for children, seniors, chronically ill, and disabled persons that does not supplant similar services provided under any existing program;

(c) increased medicaid services and medicaid provider rates. The increased revenue is intended to increase medicaid services and medicaid provider rates and not to supplant the general fund in the trended traditional level of appropriation for medicaid services and medicaid provider rates.

(d) an offset to loss of revenue to the general fund as a result of new tax credits;

(e) to fund new programs to assist eligible small employers with the costs of providing health insurance benefits to eligible employees;

(f) the cost of administering the tax credit, the purchasing pool, and the premium incentive payments and premium assistance payments as provided in Title 33, chapter 22, part 20; and

(g) to provide a state match for the medicaid program for premium incentive payments or premium assistance payments to the extent that a waiver is granted by federal law as provided in 53-2-216.

(4) (a) Except for \$1 million appropriated for the startup costs of 53-6-1004 and 53-6-1005, the money appropriated for fiscal year 2006 for the programs in subsections (3)(b) and (3)(d) through (3)(g) may not be expended until the office of budget and program planning has certified that \$25 million has been deposited in the account provided for in this section or December 1, 2005, whichever occurs earlier.

(b) On or before July 1, the budget director shall calculate a balance required to sustain each program in subsection (3) for each fiscal year of the biennium. If the budget director certifies that the reserve balance will be sufficient, then the agencies may expend the revenue for the programs 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 each agency. Upon receipt of

the notification, the agency shall adjust the operating budget for the program to reflect the available revenue as determined by the budget director.

(c) Until the programs or credits described in subsections (3)(b) and (3)(d) through (3)(g) are established, the funding must be used exclusively for the purposes described in subsections (3)(a) and (3)(c).

(5) The phrase "trended traditional level of appropriation", as used in subsection (3)(c), means the appropriation amounts, including supplemental appropriations, as those amounts were set based on eligibility standards, services authorized, and payment amount during the past five biennial budgets.

(6) The department of public health and human services may adopt rules to implement this section.