

# POTENTIAL AGENCY COST OVERRUNS/SUPPLEMENTAL REQUESTS

A Report Prepared for the

## **Legislative Finance Committee**

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As part of any determination of potential fund balance, it is necessary to try to determine other impacts on expenditures not entirely anticipated by the last legislature, and for which it must account and with which it must deal. As a consequence, this short report’s purpose is to alert the Legislative Finance Committee to potential supplemental appropriations, or to cost overruns that could necessitate major action by the agency to avoid a supplemental or that could require legislative action.

The following table shows supplemental appropriations and cost overruns as of the August special session (“Legislature”) and other potential supplemental appropriations and cost overruns (“Projected”).

Supplementals and Cost Overruns Legislature/LFD Projections 2003 Biennium				
Item	Legislature	Projected	Difference	
Wildfires Fiscal 2002	\$5.3	\$5.9	\$0.6	
Dept. Justice Litigation	0.3	0.3	0.0	
PHHS Replacement of Funding		3.9	3.9	
Wildfire Costs Fiscal 2003		<u>1.7</u>	<u>1.7</u>	
<b>Total</b>	<b>\$5.6</b>	<b>\$11.8</b>	<b>\$6.2</b>	
Potential Cost Overruns				
PHHS Medicaid Waiver		2.1	2.1	
Corrections - Secure Care Population		7.0	7.0	
<b>Total Supplementals and Overruns</b>	<b><u>\$5.6</u></b>	<b><u>\$20.9</u></b>	<b><u>\$15.3</u></b>	

There are three actual or potential areas of which the committee should be aware: 1) fire costs; 2) the Department of Public Health and Human Services; and 3) the Department of Corrections.

### **FIRE COSTS**

Because the legislature does not budget for fire costs, the Department of Natural Resources and Conservation requests a supplemental of each legislature to cover not only the current year, but the previous year’s fire costs. The projected supplemental for the 2003 biennium is

\$7.5 million, which consists of two parts:

- 1) \$5.9 million to replace funding moved from fiscal 2003 to fiscal 2002 to cover fiscal 2002 fire costs; and
- 2) \$1.6 million for payment of anticipated fiscal 2003 costs.

For a further discussion, see the report to the Legislative Finance Committee by Gary Hamel entitled “DNRC Fire Cost Report”, which follows.

## **DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES**

There are two components to the Department of Public Health and Human Services: 1) a supplemental appropriation for the replacement of funds transferred to fiscal 2002; and 2) a cost overrun due to delay in the implementation of a Medicaid waiver.

### **REPLACEMENT OF FUNDS TRANSFERRED TO FISCAL 2002**

The Office of Budget and Program Planning alerted the Legislative Finance Committee in June 2002 that it would seek a supplemental from the 2003 legislature to replace funds transferred to fiscal 2002 to address budget shortfalls. The Office of Budget and Program Planning stated that the supplemental appropriation would be offset with anticipated revenue from additional billing at the Montana Developmental Center.<sup>1</sup>

<sup>1</sup> The Legislative Finance Committee, citing the lack of a plan to reduce expenditures in fiscal 2003 to avoid over expenditure of the appropriation, reported to Governor Martz that the request did not appear to meet statutory requirements. The committee urged the Governor to present a plan.

## **DELAY IN WAIVER**

Among the cost containment measures proposed by the Department of Public Health and Human Services for the 2003 biennium to address budget shortfalls was the implementation of a waiver of Medicaid regulations. The waiver would allow the department to provide a limited package of services to able-bodied adults, primarily those receiving family Medicaid.<sup>2</sup>

A delay in the implementation of the waiver will cause a reduction in the savings anticipated in the 2003 biennium.

There is a further area of concern, but for which the potential need for a supplemental appropriation cannot be predicted. The department's projection of Medicaid claims by mental health providers is about \$10 million less than the amounts the providers have indicated they will bill Medicaid. If Medicaid costs are significantly higher than the department's current projection, further budget reduction measures could be made or a supplemental appropriation requested.

## **DEPARTMENT OF CORRECTIONS**

The Department of Corrections has experienced growing population numbers, and alerted the legislature that it faced a \$9 million shortage in appropriations in fiscal 2003. The department also pledged to take action to maintain expenditures within the appropriation. The LFD is not projecting the need for a supplemental at this time. However, there are a number of factors that raise concerns that the department will be able to take the action necessary to avoid cost overruns.

Based on the amounts appropriated by the 2001 legislature, the male institutional population is projected to be 2,970 and the female institutional population 319 by the end of fiscal 2003. At the end of fiscal 2002, the male institutional population was 3,089 and the female institutional population was 357 - both already exceeding what populations are projected to be a year from now. To further exacerbate the situation, the amount allocated for contract beds is \$4.0 million less in fiscal 2003 than the amount spent in fiscal 2002<sup>3</sup>. To stay within the reduced levels, the adult institutional average daily population will have to decrease from fiscal 2002 levels by 2 percent<sup>4</sup>. Historically over the past 8 years, the adult institutional populations have grown by over 9.0 percent each year. Therefore, decreasing populations below last year's level will be an onerous task.

The department has instituted several policy and procedural changes in an effort to remain within the fiscal 2003 appropriation. These include:

- Reduce the contract bed rate by \$2.63 per day
- Reduce juvenile placement funding by \$1,150,000
- Target pre-release length of stay at 6 months
- Reduce workforce by 6 FTE

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<sup>2</sup> Current Medicaid services for the aged, blind, and disabled would be maintained.

<sup>3</sup> The lower amount in fiscal 2003 is due to: a) the 2001 legislature appropriated less based on projected savings of the WATCH program; b) 17-7-140 reductions; and c) 2002 Special Session cuts.

<sup>4</sup> If the entire reduction were taken in contract beds, this would equate to over a 25 percent reduction. This could result in the closure of a contract bed facility; therefore, the department may propose a change in the law to allow out-of-state prisoners at the Shelby facility.

- Hold vacant approximately 10 percent of FTE positions in order to generate savings
- Target approximately 400 DOC commits currently in prison for community-based programs
- Eliminate roughly 80 cell phones within the department
- Increase class size in offender treatment programs
- Maximize the use of Medicaid dollars for eligible offenders with inpatient hospital stays

## **OTHER**

Especially in times of economic uncertainty, and given the reductions in appropriations made earlier this year both in special session and by the Governor under the authority of 17-7-140, other issues could arise between now and the legislative session that could result in programmatic changes to avoid cost overruns or in supplemental requests of the next legislature.

There are two areas of which the legislature was earlier made aware that supplemental appropriations could be requested or for which cost overruns were possible: 1) POINTS costs in the Department of Revenue; and 2) district court assumption in the Judiciary. As of this writing, due to changes in the focus of POINTS efforts, the Department of Revenue has stated it will remain within budget. The Judiciary has stated in discussions with LFD staff that they will not request a supplemental appropriation from the 2003 legislature. The Judiciary has been asked to specifically address this issue in their presentation to the Legislative Finance Committee on October 3.

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