Section B

Department of Public Health and Human Services

Legislative Fiscal Division

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DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES

AGENCY SUMMARY

The Office of Budget and Program Planning has recommended general fund spending reductions of $9.6 million in fiscal 2003, with a reduction in total expenditures of $23.2 million for the Department of Public Health and Human Services (DPHHS). These reductions are 3.5 percent of the $273.1 million general fund base.

In addition to reductions to comply with section 17-7-140, MCA, DPHHS has implemented reductions and has plans to further reduce general fund expenditures in the 2003 biennium due to projected costs overrun in both years of the biennium. At the December 2001 and March 2002 meetings, the LFC reviewed most of the spending reductions made in order to mitigate the need for a supplemental appropriation – $10.8 million general fund and $38.2 million total funds over the biennium.

DPHHS has made or plans to implement a total of $20.4 million general fund ($61.4 million total funds) in spending reductions to meet the requirements of section 17-7-140, MCA and to avoid the need for a supplemental appropriation. However, recent developments related to the supplemental mitigation plan and most recent projected 2003 biennium expenditures may require additional changes beyond those previously considered by the LFC and those included in the plan to meet requirements of section 17-7-140, MCA.
This over view summarizes:

- highlights of reductions proposed for Section 17-7-140, MCA
- options that the LFC may consider in place of or in addition to some of the reductions proposed by the executive in response to section 17-7-140, MCA
- issues related to spending reductions made in response to section 17-7-140, MCA
- new issues related to the projected 2003 biennium general fund cost overrun and potential supplemental appropriation request
- the gross proceeds tax on medical providers proposed at the Governor's Health Care Summit in May 2002

OVERVIEW OF RECOMMENDATIONS TO COMPLY WITH SECTION 17-7-140, MCA

Appendix A at the end of the DPHHS section shows recommended reductions by type and by division. The majority (64 percent) is service reductions, which include elimination of services, reductions in the amount of service and delays in implementing expansions approved by the 2001 legislature. By far, the single most significant service elimination occurs in outpatient mental health services for both children and adults and in service limitations for non-Medicaid children previously served by the Mental Health Services Plan (MHSP). Other important reductions are: 1) a $1.0 million reduction in work readiness and supportive services contracts for public assistance clients; 2) a $1.0 million reduction in foster care services; 3) a decrease of 336 children covered by the Children's Health Insurance Program (CHIP); and 4) a $1 million reduction in child care funds. Finally, a $377,217 reduction in the Montana Developmental Center and a $108,903 reduction in Eastern Montana Human Services Center could jeopardize continued Medicaid certification, which would reduce general fund revenues up to $11 million annually.

AGENCY SUMMARY (continued)

Provider rate reductions account for nearly one quarter of the change which, like service reductions, include elimination, reduction, and delays in provider rate increases approved by the legislature. The most significant rate reductions occur for services administered by the Health Policy and Services Division, which includes physician, hospital, and drug services. Fiscal 2003 provider rate increases will be withheld and rates further reduced by up to 2.6 percent depending at what point in fiscal 2003 reductions are implemented.

Personal services and operating reductions account for about 11 percent of the total proposal. Most notable in these reductions are: 1) not hiring positions and services to assist in the development of a regional mental health system; 2) holding open child protective and adult protective services positions; and 3) not filling a position that could potentially generate additional federal funds in child protective services.

OPTIONS FOR LFC CONSIDERATION

The LFC may wish to consider several options instead of or in addition to those presented by the executive in response to section 17-7-140, MCA. Each of the options is briefly summarized.

Request that DPHHS Assist Schools in Refinancing Some Medicaid Mental Health Service Reductions

DPHHS proposes to eliminate school operated, Medicaid eligible day treatment programs for emotionally disturbed children. DPHHS estimated savings ($258,736 general fund) is net of an estimated 50 percent cost shift to higher cost services due to elimination of day treatment.

DPHHS is assisting schools in refinancing another service (comprehensive school based treatment – CSBT). Schools will provide the general fund needed to continue matching federal Medicaid funds to support the services. Refinancing these services is the first priority of DPHHS. However, it is not clear that even if the funds exist within school budgets to refinance some or all day treatment services, that DPHHS will authorize continuation of the service as part of the state Medicaid plan.

The LFC could request that DPHHS actively assist schools to refinance day treatment services and include such services in the state Medicaid plan. The general fund savings could be as high as $0.5 million, if both CSBT and day treatment services could be refinanced. Additionally, schools would be free to design services deemed to be most effective by them in providing treatment to students.

Developmental Disability Program Services

The proposed spending reductions include reductions in staffing and services at the two state operated institutions for developmentally disabled individuals. DPHHS has stated that these reductions may result in the institutions being unable to maintain Medicaid certification, resulting in a loss of federal reimbursement for expenditures that would otherwise be Medicaid eligible. The two institutions combined generate Medicaid revenue of about $11 million per year that is deposited into the general fund. This revenue also pays the debt (bonds) for the Montana Developmental Center. Loss of Medicaid certification would place bond payments in jeopardy and potentially result in the state's failure to fulfill its obligation to bond holders.

AGENCY SUMMARY (continued)

There are a number of alternative spending reductions that the LFC may wish to suggest in the developmental disability services program. Some of these options were suggested to Budget Director Swysgood in a May 23, 2002 letter from the Montana Association of Independent Disability Services (MAIDS). Options that could be considered include:

1) Opting to delay or not grant the fiscal 2003 wage increase appropriated for direct care worker wage parity. The 2001 Legislature approved provider rate increases of 9.3 percent ($1.6 million general fund) for fiscal 2002 and an additional 5.4 percent ($2.4 million general fund) in fiscal 2003 for provider wage parity in the Developmental Disabilities program.
2) Reducing administrative expenditures at both the state and private provider level
3) Reducing reimbursement for vacant slots or slots on hold
4) Evaluating high end cost plans to determine alternatives to reduce service costs
5) Establishing financial and/or clinical criteria to determine which individuals receive state funded services
6) Implementing deductibles and/or co-payments for services, particularly those services funded with general fund (such as rent)
7) Implementing a sliding fee scale so that recipients were responsible for payment of a portion of the costs

Medicaid Targeted Case Management for Foster Care Children

At the March LFC meeting, staff recommended that DPHHS consider implementing targeted case management by social workers for foster care children as a potential general fund cost offset. Other states have successfully included targeted case management activities as part of cost allocation plans, sometimes saving $1 to $2 million general fund annually.

The LFC directed OBPP to review the option and report back to the LFC. DPHHS prepared an analysis that was sent to and accepted by OBPP. DPHHS estimated that savings due to implementation of targeted case management for foster care children would be about $50,000 and that savings would be markedly offset by increased record keeping by social workers to document how their time is spent.

LFD staff continue to believe that cost savings from targeted case management are much more significant than $50,000 and that documentation requirements are not as onerous as suggested by DPHHS. LFD staff has requested the information used by DPHHS to support its conclusions and will compare such information to systems used successfully by other states. Pending further analysis, the LFC may be able to request that DPHHS implement such a system to provide some general fund reductions.

ISSUES RELATED TO SECTION 17-7-140, MCA REDUCTIONS

The executive has proposed $9.6 million general fund and $23.2 million total funds in spending reductions for DPHHS. Some reductions may or may not have the impacts suggested by DPHHS. Some of the reductions have minimal to minor impacts (see priorities 1 through 5 and 7 in detailed narrative). Some reductions may have impacts that are negative, but difficult to quantify (see for example priorities 12 and 16. Finally, some reductions will reduce services available to eligible persons, could jeopardize general fund revenues, and may result in greater general fund cost shifts to other programs and potentially other agencies. Some of the reductions, most notably those in the mental health services area, will substantially alter services in ways not anticipated or discussed with the 2001 legislature. Some changes may be difficult to reverse once implemented.

AGENCY SUMMARY (continued)

Temporary Assistance for Needy Families Maintenance of Effort

The Temporary Assistance for Needy Families (TANF) grant was established by the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA), federal welfare reform. In order to receive the federal grant, states are required to expend state and local funds at minimum levels established based upon historic state and local expenditures. The minimum state-spending requirement is known as the maintenance of effort (MOE). States that meet the federally required work participation rate may reduce the required MOE spending to 75 percent of the historic expenditure level. If work participation rates are not met states must expend MOE equal to at least 80 percent of the historic expenditure level. Because Montana has been in compliance with the federal requirements regarding work participation, the 2001 legislature budgeted MOE at 75 percent.

Several of the OBPP recommendations to the Governor could result in Montana decreasing MOE expenditures in fiscal 2003. The expenditure reduction items that may impact MOE are summarized in the adjacent table.

Department of Public Health and Human Services
Proposed Reduction Plan
Items Impacting TANF MOE

Division/Item	Estimated Impact
HCSD:	
WoRc Contracts/Supportive Svcs.	$973,117
OTD/Fiscal Services:	
Contracted Services	undetermined
Personal Services	undetermined
TEAMS Computer Processing	24,502
TEAMS Facility Management	30,760

It appears that general fund MOE expenditures could be reduced in fiscal 2003 and expenditures manipulated in fiscal 2004 so that the state meets the MOE requirements. However, if the proposed expenditure reduction in Work Readiness Component (WoRC) services results in Montana's failure to meet work participation rates Montana could be subject to penalties (estimated $2.2 million for not meeting work participation requirements plus an additional $2.2 million if Montana was found to have intentionally violated federal requirements) and requirements for increased general fund expenditures in future years. These penalties would increase if Montana were out of compliance more than one year.

It is possible that DPHHS could reduce expenditure of federal TANF funds in programs such as Families Achieving Independence in Montana (FAIM) Phase IIR and/or not increase the transfer of TANF funds to the Childcare Development Fund (CCDF) in fiscal 2003. Federal TANF funds made available by reduced spending could then be used to maintain services that were budgeted as general fund MOE dollars. This shift would result in a reduction in general fund expenditures. It is important to note that in order to reduce spending in the Low-Income Housing FAIM Phase IIR item a statutory change would be needed. However, the LFC has already requested a bill be drafted to reduce the amount of funding to be transferred to the Low-Income Housing Revolving Loan Fund. The LFC could request that the amount to be transferred be reduced to zero.

AGENCY SUMMARY (continued)

Compliance with federal regulations regarding MOE is determined based upon spending during the federal fiscal year. Because Montana's state fiscal year overlaps two federal fiscal years, it is possible to manipulate funding for expenditures between state fiscal years and still comply with federal requirements. If the proposed spending reductions are implemented in fiscal 2003 DPHHS would need to manipulate (increase) the general fund expended during the July – September quarter of 2003 to comply with MOE requirements in federal fiscal 2003. This revised expenditure pattern would need to be maintained so that the state complies with the MOE requirement on a federal fiscal year basis. This action would result in a one-time reduction in general fund expenditures in fiscal 2003 while maintaining compliance with MOE requirements on a federal fiscal year basis.

States that fail to meet the required MOE expenditure (on a federal fiscal year basis) may be penalized. The penalties that may be imposed include:

- Reduction in the federal grant equal to the amount by which MOE was not met in the year succeeding the year that MOE is not met
- Requirement that the state increase its expenditures by an amount equal to the reduction in the federal grant in the year succeeding a reduction in the federal grant due to penalties

DPHHS estimates that the reductions proposed in the spending reduction plan could result in penalties of almost $1.0 million and a requirement that Montana expend an additional $1.9 million if Montana fails to meet the MOE requirement (at 75 percent).

The largest proposed spending reduction affecting TANF MOE is a reduction in funding for the WoRC of the state TANF plan. WoRC contractors provide job training, job readiness, education and training to prepare TANF recipients for employment. In the event that reductions in these services reduce Montana's ability to meet the federally mandated work participation rates, Montana could be subject to an increased MOE requirement (80 percent rather than 75 percent) and be penalized for failure to meet work participation requirements. Federal penalties for failure to meet work participation requirements include:

- Reduction in the state federal TANF grant of 5 percent if the state was not subject to a penalty in the immediate preceding year. If the state was penalized in the preceding year, the prior year percentage penalty is increased by 2 percent, but may not exceed 21 percent
- Requirement that the state increase its expenditures in the year succeeding a reduction in the federal grant due to penalties by an amount equal to the reduction in the federal grant

DPHHS estimates that the penalty for the first year of failure to meet work participation rates would result in a reduction in the federal grant of $2.2 million and a requirement that the state increase its expenditures by that amount. Additionally, if DPHHS adopts a policy that due to the reduction in WoRC services, penalties will not be imposed on participants that do not engage in work participation activities, additional federal penalties would be incurred.

Compliance with work participation rates is of great concern because of TANF reauthorization legislation currently pending in Congress. The TANF reauthorization bill passed by the U.S. House of Representatives:

- Increases work requirements to 40 hours per week (from 30 hours per week)
- Narrows the definition of allowable work activities (including limits on the allowability of education, training and job search as work activities)
- Does not allow states to have waivers changing the scope of allowable work activities (Montana has been operating under a waiver)
- Phases out use of the caseload reduction credit as a reduction to the state's required work participation rate

AGENCY SUMMARY (continued)

The U.S. Senate is scheduled to act on TANF reauthorization soon. The TANF reauthorization bill that is passed by Congress will be effective October 1, 2002. Thus, these new requirements could be in place beginning in fiscal 2003.

In addition to the penalties previously mentioned, Montana's TANF grant could be reduced by 5 percent ($2.2 million) if the state is found to have intentionally violated federal requirements. The state could also be required to increase state spending by the amount of the reduction in the federal grant due to imposition of this penalty. The maximum penalties that may be imposed in a year may not exceed 25 percent of the state TANF grant.

Significant Programmatic and Policy Changes in Mental Health Services

All components of mental health services for children and adults, except the Montana State Hospital (MSH), will experience service and in some instances eligibility limitations, due to spending reductions. In addition, without an infusion of state funds next session, these changes will be on going. Proposed reductions in mental health expenditures have the potential to significantly alter mental health services beyond the level of change anticipated by the 2001 legislature when it endorsed the executive proposal to move to a regional mental health system.

The most significant changes occur in children's services, including elimination of in-home and preventive services for many children now eligible for such services and elimination of expanded services for children eligible for the MHSP. Changes in adult services include limitations in outpatient mental health services for some Medicaid eligible adults and contracting with mental health centers to administer eligibility determination and services for the MHSP population.

Medicaid Service Reductions

Spending reductions in Medicaid funded services eliminate out patient mental health services provided by psychologists, social workers, and professional counselors for certain adults and curtail these services for certain children. DPHHS will implement medical necessity criteria for the receipt of such services. Only children determined to seriously emotionally disturbed (SED) and adults with a serious and disabling mental illness (SDMI) will be able to receive outpatient mental health services.

Children and adults not meeting SED or SDMI criteria will be able to access substitute services in physicians' offices or, if available, psychiatric services. It is difficult to predict whether access to physician services would be as effective as outpatient mental health services. Sometimes receipt of outpatient mental health services by these individuals prevents deterioration of emotional disturbances or placement in more intensive, costly services. However, DPHHS estimates of mental health spending reductions do not take into account such service substitution or potential shift to higher, more intensive services (except in the case of school based day treatment services).

Examples of children who are not SED and would no longer receive outpatient mental health services include: some abused, neglected children in the foster care system; some children at risk of abuse and neglect; some developmentally disabled children; children in the criminal justice system prior to adjudication; children in situations of domestic violence; children with a cognitive disorder or conduct disorder; and children with mental health needs who with early intervention and treatment may be prevented from becoming SED. Examples of adults who are not diagnosed with a SDMI and would no longer receive outpatient mental health services include: victims of domestic violence; victims of violent crimes; developmentally disabled adults; elderly adults; and physically disabled adults.

AGENCY SUMMARY (continued)

SED not Generally Applicable to Young Children

Using the SED definition for medical necessity may prohibit many younger children from accessing outpatient mental health services at a point in their development when such services may have the greatest preventive effect. It is difficult to determine whether young children, generally under the age of 6, are SED because a practitioner must determine that a child exhibits abnormal thinking patterns for his or her age.

MHSP Children's Service Reductions

SED children in the CHIP will no longer be able to access mental health services beyond what is included in the regular CHIP plan. Prior to these changes, SED children could access many of the same services that will be maintained for non-Medicaid adults. DPHHS has not included any cost offset that might occur if SED children eligible for CHIP move into the public system (through juvenile corrections or foster care) due to such changes.

Changes to Adult MHSP Services

DPHHS proposes to contract with mental health centers for eligibility determination and administration of MHSP adult services. Reductions in adult MHSP spending include increasing the lowest co-payment for generic drugs from $5 to $10 and eliminating state costs for eligibility determination. Funds to support contracts to continue eligibility determination and mental health services will be reduced by these decreases (about $460,000 out of projected fiscal 2002 general fund costs of $10.0 million).

DPHHS has not finalized plans or contract content. Two issues to note in relation to the contract proposal are: contracting eligibility determination does not appear to meet the DPHHS statutory exemption from competitive procurement of human services (section 18-4-123, MCA); and DPHHS must establish program eligibility and appeals for levels of care determination (section 53-21-702, MCA).

Potential Loss of Federal Mental Health Block Grant

DPHHS receives a federal mental health block grant of $1.2 million annually. The state must meet a MOE equivalent to the previous two-year average of state funds spent for community services, including Medicaid and CHIP match. DPHHS has not calculated the MOE, but it appears likely that proposed spending reductions for fiscal 2003 will result in expenditures for community services that are lower than those the previous two years. Montana would lose $1 of block grant funds for each $1 in state expenditures below the MOE level, if enforced by the federal government.

Regional Mental Health System

DPHHS proposed and the legislature approved moving to a regional mental health service system during the 2001 session. DPHHS has begun planning for the system. However, proposed spending reductions to administrative support, including reductions in contracted funds to determine capitation or reimbursement rates in the new system, will delay or hinder timely system development. Additionally, eligibility and service reductions are introducing significant change that will also impact development of a new service delivery system.

Foster Care and Children's Mental Health Services

The Child and Family Services Division (CFSD) estimates that about 50 percent of the children in foster care services are receiving some mental health services and that 50 percent of those children receiving mental health services are not seriously emotionally disturbed (SED).

AGENCY SUMMARY (continued

Thus, about 25 percent of the children in foster care are receiving mental health services that would no longer be eligible for Medicaid reimbursement under the reduction plan submitted for Addictive and Mental Disorders Division. If mental health services for non-SED children are no longer Medicaid reimbursable it is probable many of these services will be provided by the foster care system at a higher general fund cost. CFSD is currently gathering data to determine the number of children and value of services that are impacted by this change. The potential impact of a reduction in children's mental health services will be compounded by the proposed reduction in foster care services. The proposed reduction of $0.6 million general fund for foster care services is a 9.8 percent reduction in the fiscal 2003 general fund appropriated for these services. This reduction results in a reduction of total funds of about $1.0 million or 5.4 percent of the fiscal 2003 appropriation for foster care services (not including subsidized adoption). Data developed during the 2001 legislative session anticipated that the average cost per foster care client would be approximately $4,427 in fiscal 2003. Based upon this data the estimated $1.0 million reduction in foster care funding supports services for about 229 children. The division estimates that this reduction equates to one full year of services for 180 children assuming that the average cost per child per day is $15.50.

Division staff indicated that the exact manner in which the reduction in foster care services will be implemented has not yet been determined. The division anticipates revising the criteria for determination of when a child is to be returned home. The level of risk remaining in the home at the time of reunification may be increased (i.e. not decreased to as great of an extent as is currently required prior to reunification). The division also anticipates that children will be placed in alternative settings more quickly.

The proposed reductions also anticipate additional savings will be created by increasing the time positions are held vacant prior to hiring. Currently, the CFSD has left about 25 positions vacant in order to achieve the budgeted level of vacancy savings. The proposed spending reduction would result in 7-8 additional positions being held vacant, raising the total number of positions being held vacant to 33 or 10 percent of the division staffing level. This high level of vacancies is likely to impact the operation of the child protective services system, including the timeliness and quantity of services that can be delivered by child protective services workers.

NEW ISSUES RELATED TO 2003 BIENNIUM COST OVERRUNS

The LFC has reviewed DPHHS projected general fund cost overruns and spending reductions for the 2003 biennium at its December 2001 and March 2002 meetings. The cost overruns are discussed in this report because of the potential impact to the projected general fund ending fund balance and potential need for further spending reductions of $3.9 million general fund over the biennium.

The most recent DPHHS budget status report indicates that it will request a transfer of $3.9 million general fund from fiscal 2003 to fiscal 2002 and request a supplemental appropriation from the 2003 legislature. Since the LFD has not received official notification from OBPP this supplemental appropriation is not included in any of the fund balance sheets prepared by either OBPP or the LFD. Additionally, Greg Petesch, Chief of Legal Services for the Legislative Services Division, reviewed the written description of a potential Medicaid waiver being considered by DPHHS that was anticipated to save $2.8 million general fund. Mr. Petesch determined that the waiver as described violated state statutes.

AGENCY SUMMARY (continued)

Newly Projected 2003 Biennium Cost Overruns

DPHHS estimates that general fund expenditures will be $3.9 million greater than its fiscal 2002 appropriation despite cost reductions already implemented. DPHHS will request an appropriation transfer from the second year of the biennium to the first year in order to cover the shortfall. The May 28, 2002 cover memo accompanying the budget status report notes that OBPP has agreed that it will support a supplemental appropriation request from the 2003 legislature.

The preliminary DPHHS plan to offset the transfer is to "count" additional Medicaid revenue anticipated to be collected for some services provided by the Montana Developmental Center from 1996 through the present and deposited to the general fund. It should be noted that OBPP has not included an estimate for such revenue in its revenue projections submitted in compliance with section 17-7-140, MCA.

Also, counting additional revenue to "offset" a supplemental does not comply with statutory requirements that call for the approving authority to submit a plan to reduce expenditures in the second year of the biennium to remain within existing appropriation levels (section 17-7-301, MCA). Presumably this statute and other statutory provisions to contain expenditures within appropriated amounts are the reasons that the executive has implemented and proposed cost containment measures for the 2003 biennium. Perhaps just as important a consideration is that spending reductions under section 17-7-140, MCA proposed by DPHHS could jeopardize continued Medicaid certification of the Montana Developmental Center. Loss of certification would result in a significant loss of general fund revenue ($11 million annually). Even if the plan were in compliance with statute, it may not be realistic.

Legality of $2.8 Million in Spending Reductions

One of the most significant 2003 biennium spending reductions proposed by DPHHS is a waiver of federal Medicaid criteria to tailor a package of Medicaid benefits for "able bodied" adults. The concepts were initially described in a letter from Governor Martz to Tommy Thompson, Secretary of Health and Human Services, requesting expedited assistance for such a waiver. Greg Petesch, Chief of Legal Services for the Legislative Services Division, was asked to review the legality of the waiver as described in the letter. Mr. Petesch concluded that aspects of the waiver as described violate state statute.

DPHHS had prepared no similar analysis and is now reviewing Mr. Petesch's opinion. DPHHS staff indicated it will continue to review options to request a waiver to reduce Medicaid expenditures and that the final proposal may not closely resemble the initial description of the project.

Option for Fiscal 2003 Spending Reductions

The LFC could request that the executive consider further voluntary spending reductions in tobacco control general fund appropriations as one potential general fund offset.

The tobacco control program is funded with $0.5 million general fund and $0.9 million from a federal grant from the Centers for Disease Control (CDC) each year of the biennium. The grant requires a 10 percent non-federal match ($87,500) that may be provided by local or in kind funds. DPHHS proposes reducing general fund expenditures for the program by $115,538 in response to section 17-7-140, MCA, leaving a balance of about $384,000 general fund. It may be possible to eliminate the entire $0.5 million general fund appropriation for fiscal 2003 as part of a supplemental mitigation plan.

AGENCY SUMMARY (continued)

DPHHS stated that impacts would be a reduction of 43 percent in funding available for community grants and awards; program surveillance and evaluation; training and technical assistance for community contractors; and support for VISTA positions for contractors. The total amount allocated for grants, including the remaining general fund, is $903,781. The balance of program funds, about $0.2 million from the CDC grant, supports DPHHS personal services and administrative costs for the tobacco control program.

DPHHS expressed concern that it may not be ranked as high as other states to receive continued CDC funding if state effort is reduced or if grant funds are not expended on tobacco control. If the legislature were to recommend this action, it could review continued program funding during appropriation hearings since the $0.5 million general fund would be included in the base budget.

REDUCTIONS SUBJECT TO CHANGE

DPHHS has implemented and proposed spending reductions beginning in November 2001. Some of the most recently proposed reductions are a "work in progress" and details will emerge as plans are finalized. DPHHS staff has provided the best idea of how such changes are anticipated to be made at this point in time, given the very short time frame in which to identify and plan to implement spending reductions.

GOVERNOR'S GROSS PROCEEDS TAX PROPOSAL

Governor Martz introduced a proposal to provide increased state matching funds for Medicaid services at the Governor's Health Care Summit in May 2002. The proposal would implement a gross proceeds tax on all provider types eligible for participation in the Medicaid program. Under federal rule such taxes must be broad based, meaning that all providers must pay the tax, not just those who choose to participate in the Medicaid program.

The level of revenue generated by such a tax would depend on the tax rate and the provider base subject to tax. Tax proceeds could be used to: offset some of the spending and service reductions; offset current state general fund Medicaid match; fund provider rate increases; or a combination of these actions. Legislative staff will provide updates on the proposal.

Each of the following spending reductions is numbered by order of priority. The priority was determined by the executive branch, with DPHHS staff reaching consensus and establishing priorities based on the severity of impact. Improved efficiencies were the highest priority reduction followed by cuts in administrative functions. Reductions with impacts to persons receiving services were prioritized with the least onerous listed first.

Priority and Program Name	Service	Recommended
1 Director's Office	**Public/Health Affairs Officer salary**	9,121

Reallocation of the Public/Health Affairs Officers salary is expected to save $9,121 in general fund. There is no consequence of this proposed change. This reallocation of salary does not eliminate the position is just more accurately charges the salary of this position to the programs worked with. There is no impact to constituents or staff by this reallocation of salary.

LFD COMMENT

This savings result due to allocating more of the public health affairs officer salary to the new federal bioterrorism grant. The reduction may not be permanent if changing duties require the public/health affairs officer to spend more time on programs with a general fund cost.

2 Director's Office **Council Meeting Reductions** 1,200

Reducing the number of council meetings for Governor's Council on Families and DPHHS Advisory Council is estimated to save approximately $1,200 general fund in operating expenditures. This option will reduce the number of meetings of the Governor's Council on Families (GCOF) and the DPHHS Advisory Council from 4 to 3 meetings for fiscal 2003. Base year expenditures for the GCOF and the Advisory Council were $7,100 of which $2,500 was general fund. Projected fiscal 2003 costs for both councils are $10,000 of which $4,700 is general fund. A reduction of meetings from 4 to 3 is estimated to save one fourth of projected general fund expenditures or $1,200. The impact of this reduction on constituents or staff is anticipated to be minimal. Total other funds lost due to this reduction would be $1,500.

3 Director's Office **Eliminate Department Employee Survey** 2,600

Eliminating the Department Employee Survey would save an estimated $2,600 general fund in operating, consulting and professional services expenses. These funds are used to perform the annual employee survey to assist management in providing quality management and direction for the agency. The elimination of this survey would not have a direct impact on constituents, but could adversely affect staff if management issues of concern are not addressed in a timely and proper manner. The impact of this elimination may be mitigated by stronger commitment of management to address issues adequately, properly and timely and through more open lines of communications between staff and management. Total other funds lost due to this reduction would be $4,400.

4 Division of Quality Assurance **Combine storage space in Cogswell basement** 4,000

Combine storage space in basement of Cogswell building. The division share of the rent will decrease while costs for another program could increase.

5 Addictive & Mental Disorders **Move AMDD Bulletin to the web site** 6,786

This reduction will move the AMDD Bulletin to the web site and provide the information electronically. This change will enable the division to save the mailing and publication costs of the biweekly newsletter. Individuals without computer access will not receive the newsletter. Total other funds lost due to this reduction would be $6,786.

6 Child & Family Services Div **Eliminate Computer Hardware** 61,752

The Child and Family Services Division is in dire need of replacing all of its computers (approximately 350) and file servers. The division is currently exploring the possibility of using another funding source to purchase the computers. The federal Title IV-E program will pay for approximately 45% of the total cost of the computers. Total other funds lost due to this reduction would be $48,519.

7 Addictive & Mental Disorders **MMHNCC Wing Closure** 116,000

The Montana Mental Health Nursing Care Center will be closing a wing of its facility in Lewistown, due to a reduced number of patients in the facility. Because the daily population has been declining, it is not anticipated that the wing closure will have negative consequences to patient care. There will be reductions in personnel and operational expenses.

LFD COMMENT Closure of the MMHNCC B wing will reduce capacity by 34 beds out of a budgeted capacity of 150 or a 23 percent decrease. DPHHS is reviewing the possibility of using excess capacity at MMHNCC to address the over population at the Montana State Hospital. However, licensure requirements and recruitment of qualified staff are issues that would need to be addressed.

8 Addictive & Mental Disorders **Contract w/ children's coalition for out-of-home placement prevention** 480,000

This reduction would come from the reversion of biennial language appropriation to contract with children's coalition to prevent out-of-home placements. This does not reduce a currently ongoing program but it reduces the ability to put services (e.g. case management, crisis intervention) in place that could reduce out-of-home placements.

LFD COMMENT The legislature added this restricted appropriation to improve preventive services, with one expected outcome being lower numbers of children in higher end placements due to development of appropriate community services.

9 Division of Quality Assurance **CON Operational Costs** 12,000

Certificate of Need (CON) is variable and consequences would depend on the number of requests for review. If a high number of requests are received, funds will have to be found elsewhere in the division budget.

10 Addictive & Mental Disorders **Eliminate MHOAC facilitation contract with the Consensus Council** 13,710

Eliminate the current contract with the Montana Consensus Council for facilitation of the Mental Health Oversight Advisory Council. This will cause a reduction in support for MHOAC and reduced effectiveness for this Council. Total other funds lost due to this reduction would be $13,710.

11 Child & Family Services Div **Eliminate Community Collaboration Specialist** 25,000

The 2001 Legislature authorized $25,000 for the Child and Family Services Division to implement a pilot project for Community Collaboration which entails generating additional Title IV-E funds that can be used in local communities. This appropriation is intended to fund a 1.00 FTE to initiate the project. The CFSD has not been able to fill the position since the DPHHS hiring freeze was implemented. The Title IV-E program would pay for approximately 45% of this position. By not filling the position, the department will also lose about $20,455 in federal funds.

LFD ISSUE Funding for this position was added by the legislature. Other states in the region have recouped considerable amounts of additional federal funds through the implementation of community collaboration and other projects that maximize federal reimbursements from Title IV-E and Medicaid. Additionally, some states have created self-sustaining units whose only function is enhancement of federal reimbursements to the state. While the opportunity for recoupment of federal Title IV-E funds has been narrowed, it is probable that this position would generate federal reimbursement that exceeds the costs of hiring and maintaining the position.

12 Division of Quality Assurance **Reduce Personal Services Budget** 15,000

Reduction in personnel costs and operational expenses will cause a decreased efficiency in Child Care and Community Residential Licensure Programs, which will impact how quickly daycare providers are licensed.

LFD COMMENT This reduction affects a half time secretarial position in Great Falls, the region with the largest service area in the state with over 260 day care providers. Currently it takes 30 days to process a day care or community residential license application in the Great Falls area. This reduction would cause licensure time to double to 60 days.

13 Division of Quality Assurance **OTO X-Ray Contracted Inspections** 6,218

Reduced inspections of X-Ray machines could place clients at risk of excess exposure to X-rays. This reduction decreases the number of machines inspected.

LFD COMMENT DPHHS cannot quantify the impact of this reduction. No radiological inspections have been completed in the last two years.

DPHHS was unable to fill the in-house position with a qualified applicant even after extensive state and national searches. The current Radiological Health Program Officer was hired under a one-year training assignment. Training has taken about a year with the completion of federally approved x-ray inspection courses, mentoring inspections, and in April 2002, completion of dental machine inspection training.

LFD COMMENT (continued)

Inspections began in early June 2002 after proper training had been received and proficiencies established. The radiological statutes are permissive and no change to administrative rule is indicated by this act.

14 Senior & Long-Term Care Svcs **Use Lein and Estate Recovery funds to offset Medicaid Ex** 161,880

This reduction uses Lien and Estate funding appropriated for one-time expenditures to offset general fund in the HCBS Waiver and Nursing Home Programs. Due to this reduction, there would be less money to fund modifications to homes and other one-time expenditures that assist people to remain in community settings and there would be no money for one-time expenditures to improve the quality of life of people living in nursing homes. Total other funds lost due to this reduction would be $438,120.

LFD COMMENT

The legislature appropriated a one time only expenditure of lien and estate recovery funds for one time improvements in nursing home and long-term care waiver services. The appropriation is not restricted and DPHHS can use the funds to offset general fund costs of Medicaid services.

15 Disability Services Division **Reduce donated dental services under DDPAC** 2,500

Dental services to individuals with disabilities would be reduced by $2,500. Because of their disabilities, these individuals could not afford this treatment. There are no other options available to fund these services.

16 Division of Quality Assurance **OTO Licensure Contracted Funds** 52,644

This reduction would decrease the one time only appropriation for contracted services for Health Facilities Licensure inspections. Service won't be eliminated but will cause a decreased ability to assure public safety.

LFD COMMENT

DPHHS indicated that projections using the Licensure Bureau database show that $141,500 of contract funds would be required to survey all facilities with expired licenses prior to issuance of a renewal license. DPHHS has about $100,000 to spend toward this effort. The impact will be an increase in the time required to inspect facilities and process and issue a license. All licensing services are required by statute. DPHHS staff estimates that the time to complete the process may increase from 45 to 60 days, beyond some requirements of statute. For example, DPHHS must inspect a new facility within 45 days of notification that the facility intends to open (section 50-5-204, MCA).

17 Addictive & Mental Disorders **Hold central office vacant positions open** 84,784

Holding vacant central office positions open will increase the workload of other staff. One of the positions has been a high profile position to provide law enforcement and justice system training. The increased workload for other staff will lead to some work not being completed or not being completed in a timely fashion. This will result in dissatisfaction by individuals and agencies that work with the division. Total other funds lost due to this reduction would be $67,854.

18 Addictive & Mental Disorders **Regional planning vacancies and contracted services** 209,260

By not filling the authorized positions, which are currently vacant, and not contracting for services, part of the regional planning HB 2 line item appropriation would be reverted. This would increase the workload on the Mental Health Services Bureau staff and reduce the ability to implement regional management of the mental health program. Total other funds lost due to this reduction would be $139,507.

19 Health Policy & Services Divis **Eliminate $100,000 used for covering uninsured children** 100,000

To achieve this general fund savings, we would reduce the $100,000 used for contracting for primary and preventive services or supporting Medicaid services for uninsured children. The initial use of the funding (1996-2000) preceded the CHIP program. Since 2000, the funding has helped support children to receive services through existing programs.

20 Director's Office **Montana Tobacco Use Prevention Program** 115,538

Anticipated general fund savings of $115,738 in operating expenses will be achieved by reducing MTUPP by 27%. The reduction of the proposed general fund amount from the MTUPP budget would cause MTUPP to eliminate many contracts with rural and Native American communities. This reduction would also jeopardize MTUPPs award with the Centers for Disease Control, which grants MTUPP over $900,000 annually for Tobacco Use Prevention. MTUPP is funded with a combination of these federal funds and general fund dollars, ostensibly from the Tobacco Settlement. The general fund dollars are used as a match to the federal funds received. This reduction to the general fund dollars could jeopardize MTUPPs grant with CDC. If this were to happen, there would be effectively no Tobacco Use Prevention Program in the State of Montana. There is no recourse to mitigate the affect of this reduction within existing agency budget.

LFD ISSUE

The general fund appropriation for tobacco control is $0.5 million annually, resulting in a reduction of about 23 percent in the general fund supporting the program. The required non-federal match for the CDC grant is 10 percent ($87,500), which can be provided from general fund, local expenditures and in-kind funding. DPHHS' concern is that the CDC will be less likely to prioritize funding for states that receive grants but don't use them to fund tobacco use prevention. Without CDC funding, the program could not exist.

DPHHS staff also provided a note of clarification. Program staff is committed to maintaining contracts with community contractors (local governments, Native Americans,). However, DPHHS would not be able to provide the same level of services to these contractors in terms of training, technical assistance, and media support.

21 Operations & Technology Div **Reduce level of effort (LOE) CAPS Facilities Mgmt Contract** 102,041

TRW maintains a help desk that provides assistance to CAPS users and records problems experienced by them. As of April 24, 2002 there were 370 recorded problem reports outstanding for CAPS. In addition, there are 157 requests from the Child and Family Service Division to make changes to one or more parts of the system to further facilitate the management of child and family services. A general fund cut of $102,041 would result in the loss of federal match of $94,192 (48%) creating a total cut of $196,233. This reduction in level of effort by TRW staff will greatly delay the fixing of the identified problems and delay the divisions ability to make the necessary changes they have identified. Staff do not believe it will be possible to mitigate the above consequences. The outstanding problem reports and enhancements are currently prioritized by the division and only those issues identified as high priority have been worked on by TRW. Further reduction in LOE will mean there will be fewer programming staff available to the division.

LFD COMMENT

$196,233 represents a 12.7 percent reduction in funding for the CAPS Facilities Management Contract.

22 Operations & Technology Div **Reduce level of effort (LOE) TEAMS Facilities Mgmt Contract** 146,476

TRW maintains a help desk that provides assistance to TEAMS users and records problems experienced by them. As of April 16, 2002 there were 529 recorded problem reports outstanding for TEAMS. In addition, there are 154 requests from the Human and Community Service Division to make changes to one or more parts of the system to further facilitate the management of TANF, Food Stamps and Medicaid eligibility. A general fund cut of $146,476 would result in the loss of federal match of $146,476 (50%) creating a total cut of $292,952. The reduction in level of effort by TRW staff will greatly delay the fixing of the identified problems and delay the division's ability to respond to necessary changes in Welfare Reform and Federal mandates. This reduction would also result in a loss of TANF Maintenance of Effort (MOE). If the agency does not meet the required MOE, a penalty equal to the amount by which it fails to meet its basic MOE will be assessed. If the level of effort is reduced it will take longer to implement required changes. Staff do not believe it will be possible to mitigate the above consequences. The outstanding problem reports and enhancements are currently prioritized by the division and only those issues identified as high priority have been worked on by TRW. Further reduction in LOE will mean there will be fewer programming staff available to the division.

LFD COMMENT $292,952 represents a 7.0 percent reduction in funding for the TEAMS Facilities Management Contract.

LFD ISSUE This reduction will result in a reduction in general fund maintenance of effort (MOE) for the TANF Block Grant. Please see the agency summary for a discussion of TANF MOE.

Reduction in the TEAMS level of effort may create difficulties in implementation of changes in federal regulations that will be made in the next several months. The farm bill recently passed by Congress contains changes to the Food Stamp program that must be implemented. Additionally, TANF and Childcare Development Fund program reauthorization is pending before Congress at this time. Congress must reauthorize these programs by September 30, 2002.

23	**Addictive & Mental Disorders**	**Eliminate MHSP eligibility determination and reviews**	375,000

This reduction proposes to eliminate the MHSP eligibility determination and reviews by the utilization review contractor. This is part of a process of contracting out the MHSP program to a limited number of providers and eliminating the entitlement features of the program. Impacts will include elimination of some providers and require some consumers to change providers. Mental health centers will provide the MHSP eligibility determination and reviews.

LFD COMMENT DPHHS is in the initial stages of planning for this change, with an implementation goal of October 1, 2002. At this point (early June 2002), DPHHS anticipates contracting with all mental health centers interested in providing services to adults with a serious and disabling mental illness with incomes up to 150 percent of the federal poverty level. Contracted funds may also include the pharmacy benefit as well (see priority 39 "Increase pharmacy co-payment).

Contract funds would be allocated proportional to historic use by region and contractor. DPHHS would include incentives or requirements related to use of the Montana State Hospital and accepting eligible persons discharged from the hospital. Contractors would be required to submit bills for services by individual consumer so that DPHHS can maintain the mental health data it has begun to collect since fiscal 2000.

DPHHS will need to ensure compliance with section 53-21-702, MCA in changing the program to one of a few contracts managed by fewer providers. For instance, DPHHS must establish the amount, scope and duration of services (53-21-702(3), MCA) and provide for level of care appeals (53-21-702(1c), MCA). These two specific issues cannot be delegated to contractors to administer as they chose. Administrative rule and contracts must include guidelines in these two specific areas that meet statutory muster.

Some important issues remain to be clarified. For instance, how will enrollment in the program be managed if one contractor has open slots while another contractor does not and has applicants waiting for services? Will contractors be able to establish sliding fee scale payments as they did historically when such services were contracted for by the Department of Institutions prior to reorganization of executive branch human services agencies? How will contractors establish and record eligibility on a state system so that eligibility and service data can continue to be compiled? How will DPHHS audit contract performance? And of particular importance, how will this programmatic change impact planning for the new regional mental health system?

LFD ISSUE DPHHS has not planned to competitively award these contracts. However, the statutory exemption for competitive procurement for DPHHS is limited to contracting for human services (section 18-4-123, MCA). Eligibility determination is an administrative function and not provision of a human service. Therefore, it appears that contracts to perform eligibility determination would need to be competitively bid.

24 Child & Family Services Div **Reduce Domestic Violence** 75,000

The Child and Family Services Division contracts with approximately two dozen Domestic Violence programs across the state and the division must provide 20-35% matching funds (20% for existing programs and 35% for new programs) for the federal Domestic Violence grant. The CFSD has historically used two funding sources to provide the match for the federal grant: 1) a general fund appropriation and 2) a state special revenue account that derives revenue from filing fees related to divorces and separations. The division has historically provided more matching funds than required by the federal grant and the general fund match can be reduced by $75,000 without losing any federal grant funding. However, total funding for the Domestic Violence program would be reduced and the division would be required to reduce all of the Domestic Violence contracts by approximately 8%.

25 Operations & Technology Div **Personal Services Cuts.** 17,139

Personnel cost reductions and operation service cuts, along with the existing high vacancy savings requirement, would negatively impact the ability to provide critical support services for the department. With the match of approximately $20,948 (55%) of non-general funds, the total reduction in personnel costs and services would amount to approximately $38,086. The division's FTE provide critical support services for the department including budget preparation and management, cost projections for major benefit programs, development and operation of internal computer systems, statewide network management and support, vital records management and internal support services such as lease management, fleet management, and mailroom services. These services would be significantly reduced or totally eliminated, in many cases shifting costs to the programs in need of the services. Staff do not believe it will be possible to mitigate the

LFD ISSUE This reduction may result in a small reduction in general fund maintenance of effort (MOE) for the TANF Block Grant. Please see the agency summary for a discussion of TANF MOE.

26 Addictive & Mental Disorders **Eliminate Drop-In contracts** 273,000

This reduction would eliminate mental health center drop-in contracts. Centers operate drop-in programs on a limited number of weekday evenings and weekends for chronically mentally ill adults. The programs offer an opportunity for consumers to congregate for social activities for a few hours. The elimination will reduce support in affected communities for mentally ill adults and increase the chances of hospitalization.

LFD COMMENT No reduction was made in the estimated cost savings due to potential to cost shift to a higher service, despite DPHHS acknowledgement that some persons may access more intense services due to elimination of contracted drop-in services.

27 Operations & Technology Div **Reduce ISD Mainframe processing SEARCHS** 33,113

To realize a savings of $33,113 general fund and $64,278 of federal and state special match, the availability of SEARCHS to users would need to be reduced. SEARCHS is used during work hours by the Child Support Enforcement Division workers around the state for case management, receipting and generation of child support payments. The reduction in SEARCHS availability would impact the workers' ability to establish paternity and child support orders and delay the timely payments to the custodial parents. Child Support Enforcement workers may not be able to meet the mandated 48-hour turnaround on child support payments and risk loss of federal funding. Staff do not believe it will be possible to mitigate the above consequences. Since SEARCHS is an automated system accessed on the state mainframe, system work would need to be completed in fewer work hours risking high error rates.

LFD COMMENT $97,391 equates to a 5.5 percent reduction in the funding appropriated ISD mainframe processing for SEARCHS.

28 Operations & Technology Div **Reduce ISD Mainframe processing in CAPS** 24,505

To realize this savings of $24,505 general fund and $22,620 federal funds, the availability of CAPS to users would need to be reduced. CAPS is used during work hours by the child and adult protection workers around the state for case management and generation of foster care payments. It is also used 24 hours a day by the centralized child abuse report staff to record and refer instances of reported child and adult abuse. The reduction in CAPS availability would impact the expedient response to child and adult abuse instances and delay the timely payments to the state's foster families. This will also place the workers in a position where work must be completed in fewer work hours and will increase error rates and risk federal funding. Staff do not believe it will be possible to mitigate the above consequences. Since CAPS is an automated social services information system accessed on the state mainframe, system work would need to be completed in fewer work hours risking high error rates.

LFD COMMENT $47,125 equates to a 6.2 percent reduction in the funding appropriated for ISD mainframe processing for CAPS.

29 Operations & Technology Div **Reduce ISD Network Subscriptions by 50** 21,780

A reduction of ISD network subscriptions would cut $21,780 general fund and $21,780 of federal and state special match. PCs in field offices would need to be reconfigured resulting in increased travel. All applications (e.g. timesheets) would be running from the C: drive resulting in increased difficulty in maintaining and upgrading applications. Travel would be required to each office site for application changes instead of being able to make changes at a central office. No automatic backup of files; users would need to be trained to back-up critical data. Local printers would be needed. No file sharing via the network resulting in increased traffic sharing files via email. Live hands-on training would not be available to system users. Public would need to go to alternative sites to look for a job. To mitigate the impacts, additional staff would be required to maintain the networks, system applications, and facilitate training needs throughout the

30 Operations & Technology Div **Reduce level of effort (LOE) MMIS Facilities Mgmt Contract** 19,573

MMIS is a Medicaid provider claims processing informational retrieval system that is operated and maintained under contract by the state's Medicaid fiscal agent ACS. The current contract provides 5 professional Level of Effort (LOE) to operate and maintain the MMIS system. A general fund cut of $19,573 would result in the loss of the federal match of $58,719 (75%) creating a total cut of $78,292. System changes and enhancements are prioritized by the MMIS User Group and only those items identified as high priority are worked on by ACS. A reduction in LOE will result in fewer programming staff available to the division and will delay the division's ability to respond to necessary changes and enhancements, many of which are federal mandates that, if not met, will result in the loss of federal funding. Staff do not believe it will be possible to mitigate the above consequences. The Change Requests and Enhancements are currently prioritized by the division and only those issues identified as high priority are worked on by the ACS. Further reduction in LOE will mean there will be fewer programming staff available to the division and mandated changes may not be able to be addressed, risking the loss of federal funds.

LFD COMMENT $78,292 equates to a 1.8 percent reduction in funding appropriated for the MMIS facilities management contract.

31 Operations & Technology Div **Reduce ISD Mainframe processing in TEAMS** 116,676

Reduce ISD Mainframe processing in TEAMS. A reduction of $116,676 general fund would result in the loss of the federal match of 50% creating a total loss of $233,351. This reduction would also result in a loss of TANF Maintenance of Effort (MOE). If the agency does not meet the required MOE, a penalty equal to the amount by which it fails to meet its basic MOE will be assessed. To realize this savings the availability of TEAMS to users would need to be reduced. TEAMS is used during work hours by the Human and Community Services Division workers around the state for TANF, Food Stamps and Medicaid case management and generation of Food Stamps, TANF payments and Medicaid eligibility cards. The reduction in TEAMS availability would impact the workers ability to determine TANF, Food Stamps and Medicaid eligibility and would delay the generation of Food Stamps, TANF payments and Medicaid eligibility cards. This will also place workers in a position where work must be completed in fewer hours and will increase the error rates and risk federal funding. Staff do not believe it will be possible to mitigate the above consequences. Since TEAMS is an automated benefit eligibility system accessed on the state mainframe, system work would need to be completed in fewer work hours risking high error rates.

LFD COMMENT

$233,351 equates to a 10.5 percent reduction in funding appropriated for TEAMS ISD mainframe processing costs.

LFD ISSUE

This reduction impacts TANF MOE expenditures. Please refer to the agency summary for a discussion of TANF MOE.

32 Division of Quality Assurance **Reduce QAD Operations** 66,695

Reducing QAD personnel and operational costs will cause a decrease in customer service in the Administrative and in the Licensure and Audit and Program Compliance Bureaus. There will be a decreased ability to assure public safety in health and child care facilities. Total other funds lost due to this reduction would be $52,403.

LFD COMMENT

DPHHS will increase vacancy savings, maximize the use of federal funds, and limit operational expenditures to those necessary for the ongoing operation of the division. FTE would be cut as a last way to meet the general fund spending reductions. Since spending reductions are very general, it is difficult to analyze whether such reductions will decrease DPHHS ability to assure public safety in health and childcare facilities.

33 Child Support Enforcement **Reduce CSED Operations** 22,500

Reductions in personnel costs and operations of $22,500 general fund will result in a reduction of $43,676 in matching funds. Child support services must be performed in a timely manner to meet federal regulations and this would cause increased workloads for employees to meet these requirements.

LFD ISSUE

Prior to this reduction the Child Support Enforcement Division had an estimated general fund deficit for fiscal 2003 of $1.2 million ($3.6 million total funds) because federal incentive fund revenues were less than anticipated during the 2003 biennium budgeting process. The department has implemented a number of spending reductions to avoid the need for a supplemental appropriation.

34 Child & Family Services Div **Reduce Big Brothers Big Sisters** 25,000

The 2001 Legislature authorized a $25,000 one-time-only increase in the BBBS appropriation. The Child and Family Services Division contracts with BBBS in nine communities and a reduction in the contracts could be politically sensitive. The CFSD will have to reduce the contracts by approximately 12% in FY 2003. There are no federal funds associated with this appropriation.

35 Operations Technology Division **Reduce IT Consulting & Professional Services Budget** 32,536

The reduction in IT Consulting and Professional Services will result in general fund cut of $32,536 and the federal and state special funding match of approximately $38,194. This reduction will have adverse impacts on two critical Fiscal Services Division projects. First, the agency cost allocation plan funding will be eliminated. In addition, funding for a new accounts receivable system will be unavailable. The present A/R system is very old and extremely difficult to modify. A new system is imperative for the proper tracking of agency A/R. Audit exceptions will result if this funding is removed. This cut would also result in a loss of TANF Maintenance of Effort (MOE). If the agency does not meet the required MOE, a penalty equal to the amount by which it fails to meet its basic MOE will be assessed. To mitigate the impacts (audit exceptions and loss of A/R collection revenue), additional staff would be required to manually perform the cost allocation and

LFD ISSUE This reduction impacts TANF MOE. Please see the agency summary for a discussion of TANF MOE.

It is possible that the reduction in funding for the cost allocation plan could result in less federal reimbursement being claimed than the state is eligible to receive. It is possible that the loss of federal reimbursement due to this reduction could be greater than the general fund savings.

36 Senior & Long-Term Care Svcs **Delay Waiver and Personal Assistance Rate and Wage Increase** 162,248

This cut would delay Medicaid Personal Assistance direct care wage increases and HCBS Waiver and Home Health provider rate increases by six months. This would cause an increased difficulty in recruiting and retaining direct care staff and possible increased staff turnover until the funds become available.

37 Senior & Long-Term Care Svcs **Reduce Meals on Wheels** 43,361

Reduce the number of Congregate and Home Delivered meals programs contracted through the Area Agencies on Aging. This cut would delay the provider rate increase by about nine months and thereby reduce the number of meals provided to senior citizens by 15,896.

LFD COMMENT DPHHS estimated the number of meals provided to senior citizens that would be foregone if a provider rate increase is delayed. However, it should be noted that a reduction in services would occur only if Area Agency on Aging (AAA) programs chose to do so. For example, if providers had intended to increase wages with the provider rate increase, services would be reduced only to the extent that providers enacted wage increases before the provider rate increase is granted in March/April 2003.

DPHHS chose to quantify the reduction by using the number of meals foregone. DPHHS noted that it is not possible to measure the exact impact of delaying the increased funding for AAA's since it is a grant program where the funds may be used to pay for a variety of services, rather than a fee for service program that purchases a single service. Since meals are by far the largest expenditure under the grant, and DPHHS was asked to assess the impact of the reduction, it divided the amount of the reduction by the average cost of a meal and computed a number of meals that could have been provided with these funds. DPHHS stated that using number of meals is a realistic measure given the nature of the Aging Services program and it quantifies the cut in an understandable way.

38 Senior & Long-Term Care Svcs **Reduce Adult Protective Services Worker** 41,714

This cut would require a delay in hiring two new Adult Protective Services workers until January 2003 (six months). The cut would cause a delayed response to reports of abuse, neglect and exploitation of vulnerable clients and the inability to provide protective services in a timely manner.

LFD COMMENT The 2001 legislature funded 2.0 new adult protective services FTE for fiscal 2002, and an additional 2.0 FTE in fiscal 2003. The fiscal 2002 funding was used to increase several part time positions and hire a new 0.5 FTE in January 2002. The budget reduction plan anticipates holding both new positions funded for fiscal 2003 FTE open until January 2003. Given the delay in hiring the new part-time FTE in fiscal 2002, this change may not produce negative effects any greater than delaying addition of new staff in fiscal 2002.

39 Addictive & Mental Disorders **Increase Pharmacy Co-pay** 80,291

Increase pharmacy co-pay for MHSP drug program recipients. This will increase the out-of-pocket costs of MHSP pharmacy program participants by approximately $2.50 per script.

LFD COMMENT DPHHS may consolidate this change with priority number 23 "Eliminate MHSP eligibility determination and reviews" by including funding for pharmaceuticals in the contracts for adult mental health services for non-Medicaid eligible persons. The increased co-payment savings would be passed on in a lower total dollar contract amount.

If the MHSP drug program is not rolled into the contract and continues to be administered by DPHHS, co-payments would increase from $5 to $10 for a generic prescription, or an average of $2.50 for each co-payment. Current co-payment amounts are $5, $10, or $15 per script depending on whether the drug is a generic and whether manufacturers of brand name prescriptions participate in the rebate program. DPHHS notes that many drug companies still do not participate in the state mental health rebate program and that some cuts could have been avoided if all participated.

DPHHS staff states that on average MHSP recipients pay $238 per year in co-payments for prescriptions prior to these changes. There are no co-payment requirements on other services.

40 Addictive & Mental Disorders **Limit children services to individuals that are SED** 486,197

Limit children's services (psychology, social worker, and professional counseling) to those that meet the definition of serious emotional disturbance (SED). Presently in Medicaid, individuals that do not meet the strict definition of SED receive services. Services for non-SED children would be eliminated. The child and adolescent Medicaid recipients who are not SED would not receive these services. Total other funds lost due to this reduction would be $1,309,879.

LFD ISSUE DPHHS did not estimate any cost shift to other mandatory providers, substitute services, or higher cost services due to elimination of outpatient mental health services. In some instances, the cost shift could be due to elimination of community services placing some children at risk of out-of-home placements.

DPHHS staff has been working with federal staff from the Centers for Medicaid and Medicare Services (CMS) to determine whether this reduction can be made. CMS staff notes that a state may define medical necessity criteria governing when receipt of a service is necessary to treat a medical condition. However, DPHHS staff notes there are several court cases pending with respect to such limitations and the Early, Periodic, Screening, Diagnosis, and Treatment (EPSDT) program established in federal Medicaid criteria.

The EPSDT program provides that a Medicaid eligible child, who is screened and diagnosed, must receive the required/prescribed treatment if the service is Medicaid eligible even if the prescribed service is not included in the state Medicaid plan. However, if the state Medicaid plan provides other services that could meet the treatment needs those services can be substituted. In some instances, it can be very difficult to prove that a single unique service must be provided when substitutes exist.

LFD ISSUE (continued)

Currently, DPHHS reviews physical health practitioner's diagnoses and prescribed treatments under EPSDT and sometimes allows the treatments prescribed. If the same, process is required for mental health services, it is conceivable that some children who are not SED could still receive mental health services.

Examples of Medicaid eligible children who are not SED and would no longer be entitled to receive outpatient mental health services would be: abused, neglected children in the foster care system; children at risk of abuse and neglect; developmentally disabled children who may have mental health needs; children in the criminal justice system prior to adjudication; children in situations of domestic violence; and children with mental health needs and who with early intervention and treatment may be prevented from becoming SED. These children would still be able to access physicians and child psychiatrists (assuming such practitioners are available in community settings). It is difficult to assess whether treatment outcomes would be comparable between physician services and outpatient mental health practitioners.

LFD ISSUE

Please see the agency summary for a discussion of foster care and children's mental health services.

41 Addictive & Mental Disorders **Eliminate CHIP/MHSP therapy and other non out-of-home services** 75,336

Eliminate CHIP/MHSP outpatient therapy and other non out-of-home services. Children and adolescents will be limited to the services provided under CHIP. Once the individual has exceeded the service limits in CHIP, additional services will not be available. Total other funds lost due to this reduction would be $322,218.

LFD ISSUE

DPHHS did not anticipate cost shift to higher cost services due to reduction in lower cost services. In some cases in-home services prevent out-of-home placement of children and potentially placement of children in foster care. Loss of in-home preventive services could result in higher numbers of out of home placements. The estimated cost savings do not anticipate such potential cost shifts and assume there will be no impact due to loss of services. For instance if one child were to be placed in state custody in the highest cost out-of-home services due to these service reductions, the general fund cost to the state would be $96,000 to $27,000 annually, depending on whether the service and child were Medicaid eligible.

42 Addictive & Mental Disorders **Limit adult services to individuals that are SMDI** 200,000

Limit adult outpatient (psychology, social work, professional counseling) services to individuals that suffer from severe and disabling mental illness(SDMI). Presently in Medicaid, individuals receive services that do not meet the strict definition of SDMI. This will eliminate services for some adult Medicaid recipients who have less serious mental illnesses. Total other funds lost due to this reduction would be $538,825.

LFD ISSUE

DPHHS has not anticipated any cost shift to services that cannot be limited and can substitute for outpatient mental health counseling – such as physician or, if available, psychiatrist services. Nor has AMDD estimated any cost shift to more intensive services if individuals cannot be maintained in the community without such outpatient mental health services. Examples of Medicaid eligible adults who do not meet SDMI include: physically disabled, developmentally disabled, aged, or blind adults. Additionally, DPHHS staff has identified about 400 adults who have a serious and disabling mental illness, but are eligible for Medicaid because they are parents or caretaker relatives of children. Unless DPHHS creates a new eligibility group for such individuals, they too would lose outpatient services and would definitely access higher cost alternatives.

Impacts of mental health service reductions are also discussed in the agency summary.

43 Addictive & Mental Disorders **Eliminate CHIP/MHSP out-of-home services** 174,911

Eliminate out-of-home services for CHIP/MHSP eligible children. Children in this program requiring out-of-home care will not receive the service except to the extent it is a part of the limited CHIP benefit. Youth requiring longer-term out-of-home care will not have it available. Total other funds lost due to this reduction would be $748,102.

LFD COMMENT

DPHHS did not offset cost reductions due to cost shifts to higher levels of service or children shifting to state custody as a result of such service reductions.

44 Addictive & Mental Disorders **Eliminate youth/adolescent day treatment** 258,736

Eliminate youth and adolescent day treatment programs under Medicaid and MHSP. The elimination would have an impact on school-based day treatment programs and the children/adolescents in those programs would need services of another nature. With the earlier elimination of school-based services, unless school-based can be re-financed, there will not be public funding for intensive outpatient programs for seriously emotionally disturbed youth. The elimination proposal assumes only a 50% savings. It is assumed that other services will be necessary and funded with the remaining 50%. Total other funds lost due to this reduction would be $697,069.

LFD ISSUE

There may be a potential to "refinance" this service if schools could provide the general fund match necessary to continue the federal Medicaid matching funds. DPHHS staff is helping schools to refinance Comprehensive School Based Treatment (CSBT) in this way. DPHHS staff is not prepared to commit to helping schools refinance this service if adequate funds exist.

The LFC may wish to direct DPHHS staff to assist schools to refinance this service if schools wish to do so. If schools can refinance this service, it could prevent cost shifting to higher cost services.

LFD ISSUE

Please see agency summary for a discussion of foster care and children's mental health services.

45 Disability Services Division **Reduce client services in VR** 117,832

Visual Services Medical would be eliminated and Independent Living and Extended Employment services to 102 individuals with disabilities would be reduced. Reductions would come from eliminating visual services medical budget of $88,684, reducing independent living services by $26,500 and reducing extended employment services by $2,648.VSM services to about 71 individuals would be eliminated. Examples of services provided are diagnosis, surgery and treatment, hospitalization and transportation. To be eligible for VSM the individual must have an eye condition that needs medical attention in order to prevent blindness, restore sight or treat an eye condition due to blindness; not qualify for medical assistance through another state or federal program; and be in financial need. Independent living services to about 30 individuals would be eliminated. IL services compliment Vocational Rehabilitation services by providing the resources and assistance needed, to allow consumers to move from acquiring basic needs to increased independence and community integration and employment. Ultimately IL services help decrease high costs services in more restrictive settings. Loss of funds impacts the Statewide Independent Living Council's ability to adequately support the network of centers and engage in advocacy and support for consumers and meeting the responsibilities in the State Plan for Independent Living. Reductions under the extended employment program would come from not filling one vacancy during the year. There are no other options available to fund these long-term services.

LFD COMMENT This reduction eliminates most vocational rehabilitation services that are funded entirely with general fund.

46 Senior & Long-Term Care Svcs **Further Reduce Adult Protective Services** 30,000

This cut would decrease the amount of client contingency funds available to purchase services and supports which help prevent abuse and neglect.

LFD COMMENT Legislative staff requested that DPHHS estimate the amount of general fund that it expects to spend in fiscal 2002 for such services. The legislature appropriated $100,000 general fund annually.

47 Child & Family Services Div **Reduce Foster Care** 639,417

It is unclear at this point exactly what Foster Care services would be reduced or eliminated. The Child and Family Services Division would have to assemble a team to evaluate and prioritize which services could be reduced or eliminated. Reducing the Foster Care budget by $639,417 will also result in a loss of approximately $373,813 in federal Title IV-E funds. Reducing and/or eliminating services may result in the division not being able to recruit new Foster Parents or place children that need to be removed from abusive situations. The division may also be forced to reduce the length of time children spend in Foster Care and to return them to living arrangements that may still be potentially unsafe.

LFD ISSUE Please see the agency summary for a discussion of foster care and children's mental health services.

48 Child & Family Services Div **Operations Reductions** 170,272

If this reduction is implemented, the Child and Family Services Division would have to leave positions vacant when they become open. Current staff have caseloads that greatly exceed their ability to provide the necessary services. The division is required by law to respond to reports of child abuse and neglect and leaving positions vacant for extended periods of time may result in the division not being able to meet the mandatory requirements. If the division is not able to respond in a timely manner, children may be at greater risk of abuse and neglect and the division could be much more vulnerable to tort lawsuits. Reducing the operating budget by $170,272 in general fund will also result in the loss of approximately $139,313 in federal funds.

LFD ISSUE Please see the agency summary for a discussion of foster care and children's mental health services.

49 Health Policy & Services Divis **Reduce appropriation for CHIP** 89,222

Reducing the CHIP appropriation will eliminate health insurance coverage for 336 children. There will be $89,222 of general fund and $466,110 total dollars lost with this reduction. These children would no longer receive health insurance and are not eligible for Medicaid and their families cannot afford to purchase health insurance. These children were uninsured before they were covered by CHIP and would again have no resources for medical and dental care. Cutting CHIP state and federal funds shifts the costs of caring for these children to taxpayer-funded public clinics and overburdened charity care providers. The cost of this care is not matched by the federal government, meaning local communities will pay 100% of these costs. Much of the low cost primary care provided through CHIP coverage will be shifted to expensive emergency rooms. Given the Department's current circumstances, the only options are to provide more funds or discontinue providing health insurance to children.

50 Senior & Long-Term Care Svcs **Further Reduce Aging Services Funding** 30,000

This cut will reduce the operations budget of the state aging services program.

LFD COMMENT DPHHS is not sure how such reductions will be accomplished. It is considering options to reduce travel or contracted services expenditures while looking for ways to increase federal funding to offset some or all of the general fund reduction.

51 Senior & Long-Term Care Svcs **Cut Medicaid HCBS Waiver Services** 97,191

This cut would require a five-month delay in distributing the appropriated increase in funding for the HCBS Waiver. Because Waiver services assist people to stay in their own homes and prevent institutionalization, and because the program currently has a waiting list, the delay in allocating these resources may result in forcing some people to move into Medicaid funded nursing home services unnecessarily.

LFD COMMENT This reduction is a delay in implementation of legislatively approved program expansions. DPHHS staff notes that it is not possible to calculate an exact number of persons that may move into a nursing home due to the delay. DPHHS staff also notes that it will use existing waiver resources to try to avoid unnecessary nursing home placements. Persons may be willing to remain in their homes and make alternative arrangements if they know additional waiver resources will be available. There will be less potential for cost shift to nursing homes with a delay in providing additional waiver resources than there would be with a permanent cut.

52 Health Policy & Services Divis **Withhold provider rate increase for FY 03** 588,768

The department received authorization by the 2001 Legislature to provide provider rate increases for Hospitals, Dentists, Ambulance, and Physicians, Mid level practitioners, Therapists, and other providers reimbursed under the RBRVS methodology. Withholding this provider rate increase negatively impacts these providers in that the Medicaid program is not able to keep up with inflation with the cost of providing the health care service. The Medicaid program will wind up paying a lower percentage of the cost of care and add to the frustration of the providers with the Medicaid program. Many providers feel that Medicaid does not pay its fair share of the cost of care and withholding this increase may result in some providers refusing to provide care to clients. Total other funds lost due to this reduction would be $1,586,215.

LFD COMMENT Federal Medicaid criteria require states to establish reimbursement rates at levels sufficient to attract adequate numbers of providers. Courts have held that the number of Medicaid providers is adequate if Medicaid recipients have access to medical services in the same proportion as access for the general population. Simplistically, if a Medicaid client could locate a provider and make an appointment within the same time frame as a non-Medicaid client, access would be proportional.

It is difficult to project whether there will be any or significant reductions in Medicaid providers as a result of recent provider rate reductions and increases in client co-payments, which can result in further reimbursement reductions if providers are unable to collect the co-payment. It is difficult to determine when or how many providers will either decline to participate in the Medicaid program, decline to accept new Medicaid clients, or further limit the number of Medicaid clients they accept into their practices due to rate reductions. DPHHS has received a letter from 20 physicians in Helena stating they would no longer accept new patients. Additionally DPHHS was verbally notified that one provider intends to leave the Medicaid program, but it has not yet done so.

53 Human And Community Services D **Reduce TANF WoRC Contracts and TANF Supportive Services** 973,117

General fund reductions would reduce the WoRC and employment contracts and would include a reduction in the funding for TANF supportive services. The state would not meet its TANF maintenance of effort (MOE). States that do not meet their MOE are subject to severe penalties. In the succeeding year that a state does not meet its MOE its federal block grant is reduced dollar for dollar and the state has to replace the

reduction with state general fund. Additionally, for not meeting MOE the block grant is reduced by 2% and again the state has to make up the difference in state general fund. With the cuts in the WoRC and employment contracts and supportive services, work participation rates will be affected. TANF clients are required to perform work activities (30-35 hours per week). These contracts and supportive services support TANF clients in attaining their work participation rates. 45 CFR 261.50 states that if a state does not meet the participation rate that a penalty of 5% of the adjusted SFAG (block grant after transfers) will be imposed, and an additional 2% of each additional year in which participation rates are not met. In the succeeding year, the state would be required to make up that reduction with state general fund. Based on the reductions, the state could receive penalties up to $5,050,679. All of which would have to be back filled with state general fund to maintain the program at the existing level. The impact to constituents cannot be mitigated. Without sufficient funding, TANF clients would not have the support to attain or maintain work and could possibly exceed their 60-month time limits. Caseload increases would occur.

LFD ISSUE This reduction results a reduction of TANF MOE expenditures. Please see the agency summary for a discussion of TANF MOE.

54 Human And Community Services D **Reduce Child Care Match Child Care Matching Funds** 302,021

This general fund reduction will result in lost federal match of $819,900 and the total program reduction would be $1,121,921. This general fund reduction eliminates childcare services to 647 children from 380 families. There is a secondary impact that reduces slots filled in childcare provider's facilities, for this reduction slots would be reduced by 270 slots. The parents of these affected families may resort to substandard childcare, leave their children alone, or leave employment to care for their children. Although difficult to project the finite affect on the TANF caseload, this reduction will increase that caseload. Additionally, with the loss of this funding waiting lists would be anticipated.

LFD COMMENT $302,021 equates to a 17.7 percent decrease in the general fund available to draw federal childcare matching funds. This reduction does not impact the general fund available to be expended MOE for the Childcare Development Fund (CCDF). This reduction will result in fewer children/families receiving childcare subsidies and may result in a decrease in the number of available childcare providers.

55 Senior & Long-Term Care Svcs **Reduce Medicaid Long Term Care Benefits** 673,931

To achieve the above general fund savings, a total program reduction of $2.3 million dollars ($673,931 general fund and $1,682,667other funds) must occur. The reduction would be made through a combination of decreases in the amount or level of Medicaid Long Term Care (LTC) services provided to disabled and elderly individuals and/or decreases in the number of people receiving those services. Medicaid LTC services include: nursing home services, personal assistance services, home health, home and community-based waiver and hospice services. Staff will make every attempt to achieve the required reduction through program changes that minimize the impact on the health, safety and welfare of the people served. However, given the vulnerable nature of the elderly and disabled, and their critical reliance on the assistance these services provide, deep cuts in Medicaid LTC programs have the potential to cause real harm to real people. Some individuals may attempt to live with no or reduced services at an increased risk to their personal health and safety rather than face institutionalization. Other individuals may become more dependent on unpaid friends and family to fill in the care gaps, leading to increased pressure on informal caregivers and the potential for abuse. Lastly, some individuals may not be able to cope with the reduced amount of assistance available and will be forced to enter an institutional setting.

LFD COMMENT DPHHS will review ways to tighten pre-admission eligibility criteria for all Medicaid long-term care programs, including nursing homes, and/or to reduce the average number of units of service delivered per person for services such as personal assistance and home health. DPHHS will try to stabilize the growth in units of service per person and limit the growth in the number of persons eligible to the fiscal 2002 level or below, thereby saving money within fiscal 2003 appropriated growth rates. Reducing the amount of time allocated to perform certain tasks or eliminating reimbursement for such tasks can achieve such reductions. DPHHS may be able to reconfigure the services a person receives and reduce expenditures. DPHHS central office and field staff will work with providers and consumers in order to make the necessary savings while minimizing negative impacts to the people served by these programs.

56 Disability Services Division **Reduce client services and operations at MDC** 377,217

Reduce client services and operations at MDC. Montana Developmental Center would reduce client services by reducing personnel costs and reducing operations. Basic health care, nursing services, habilitation, physical and occupational therapy to medically needy clients would be severely reduced. This would put the health and safety of clients in jeopardy. Without these services clients will lose physical and social skill, have less interaction with other clients and staff, and basic care needs would be greatly reduced. Staff will find it difficult to meet the objectives of each individual's treatment plans. Failure to meet these objectives would result in the inability to meet ICFMR regulations on active treatment, resulting in a loss of over $9 million of Medicaid reimbursement to the general fund. There are no other options or services available for these individuals. The residents at MDC are committed to the facility through the court system. Services in the community for individuals with developmental disabilities already have a large waiting list.

LFD ISSUE Please see the agency summary for a discussion of reductions in the Developmental Disabilities Program services.

57 Disability Services Division **Reduce client services and operations at EHSC** 108,903

Further reduce client services by reducing personnel services and operations at Eastmont Human Services Center. The implementation of this budget reduction plan will have an impact throughout all facets of the operations at the facility, jeopardizing active treatment programs which may prevent the facility from maintaining Medicaid standards and ultimately losing Medicaid certification. The facility may not be able to meet their obligations to provide the required services for the residents as mandated by Medicaid. The State may lose approximately $2 million in federal reimbursement for failure to meet ICFMR requirements to maintain the required standard of care and treatment. Impacts would be that residents would not receive active treatment as is mandated by Medicaid and staff may lose their jobs. There are no other options or services for these individuals. The residents at EHSC are committed to the facility through the court system. Services in the community for individuals with developmental disabilities already have a large waiting list.

LFD ISSUE Please see the agency summary for a discussion of reductions in the Developmental Disabilities Program services.

58 Disability Services Division **Reduce client services in VR** 274,940

Further reducing client services to 721more individuals with disabilities in VR. Independent Living and Extended Employment services would be further cut along with Section 110 services. General fund dollars totaling $274,940 would be reduced from Vocational Rehabilitation's budget. Reductions would come from reducing independent living services by $9,200, reducing extended employment services $68,382 and reducing Section 110 services by $197,358. IL services compliment Vocational Rehabilitation services by providing the resources and assistance needed to allow consumers to move from acquiring basic needs to increased independence and community integration and employment. Ultimately IL services help decrease high costs services in more restrictive settings. Loss of funds impacts the Statewide Independent Living Council's ability

to adequately support the network of centers and engage in advocacy and support for consumers and meeting the responsibilities in the State Plan for Independent Living. Reductions under the extended employment program would come from freezing intake and eliminating services to an additional 10 individuals. These individuals would lose the needed on-the-job supports, ultimately losing their employment. Additional funds lost will be federal Section 110 matching dollars of $729,205. This program assists people in achieving employment. Individuals currently receiving public assistance or other benefits including Social Security would be continue to do so because they are unable to return to work. The average wage an individual earns when placed in employment is about $8.04 per hour. For every dollar spent on VR services approximately $6 is returned through ability to pay taxes and reduce or eliminate the need for public assistance. The current reduction is at the maintenance of effort level and any further reduction would result in financial penalties to the program. Personnel costs and operations would be reviewed for reductions commensurate with the overall program reductions.

LFD COMMENT This reduction would result in fewer individuals receiving vocational rehabilitation services. General fund expended for Section 110 Vocational Rehabilitation services are matched on a 21/79 general fund/federal fund ratio. Division staff indicated that they would probably have to implement an "order of selection" as allowed under federal regulation to determine which individuals received services. Under this scenario a waiting list for services would be created. Additionally, division staff are reviewing the impact this reduction would have on the federally required maintenance of effort level that the state is required to meet for the Vocational Rehabilitation Program.

59 Health Policy & Services Divis **Extend the across the board provider payment** 775,107

Extend the across the board provider payment cuts to health care providers. Currently, for the period 1/1/02-6/30/02 this percentage is 2.6% and certain provider types and services are excluded from this policy. Staff proposes to add pharmacy to this list of excluded provider types. The consequences or impact of the proposed elimination or reduction will be that heath care providers may no longer provide services to needy Medicaid eligible Montanans. In SFY 2002, the 2.6% cut has resulted in some providers withdrawing from the Medicaid program. However, most providers have continued to provide services for clients as the 2.6% cut was limited to 1/1/02-6/30/02. Continued cuts in reimbursement may result in providers withdrawing from the program. This situation could create an access problem for the State. Due to the current budget situation the only way to mitigate the impact on constituents and staff would be to fund the program so as to retain the services and maintain the federal participation under Medicaid. Total other funds lost due to this reduction would be $1,403,640.

LFD COMMENT This provider rate reduction would result in about a 1.3 percent reduction annually or a 2.6 percent reduction for the first six months of fiscal 2003. This reduction has the same potential impacts discussed in priority 52 "Withhold provider rate increases for fiscal 2003."

Summary for Agency # 6901, Department of Public Health and Human Services, (59 detail records) **9,601,759**

Fiscal 2003 Base Appropriation	**273,103,341**
Percent Reduction From Base	**3.5%**

APPENDIX A

Department of Public Health and Human Services
Fiscal 2003 Reductions to Implement 17-7-140, MCA

	Provider Rate Reductions/Delays & Increased Client Share		Service Limitations/ Reductions		Personal Services Reductions		Operating Plan Reductions	
Division	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds
Human & Community Services	$0	$0	$1,275,138	$2,088,821	$0	$0	$0	$0
Child and Family Services	0	0	739,417	1,113,230	195,272	355,040	61,752	110,271
Director's Office	0	0	115,538	115,538	9,121	9,121	3,800	9,700
Child Support Enforcement	0	0	0	0	22,500	66,176	0	0
Health Policy & Srvcs	1,363,875	5,038,326	189,222	655,332	0	0	0	0
Quality Assurance	0	0	21,218	21,218	0	0	135,339	187,742
Operations and Technology	0	0	0	0	17,139	38,087	496,700	1,059,633
Disbilty Services	0	0	881,392	1,610,597	0	0	0	0
Senior & Long Term Care	205,609	642,726	963,002	3,345,634	41,714	41,714	30,000	30,000
Additctive & Mental Disorders	80,291	80,291	2,323,180	5,939,273	294,044	501,405	136,496	156,992
Total by Reduction Type	$1,649,775	$5,761,343	$6,508,107	$14,889,643	$579,790	$1,011,543	$864,087	$1,554,338
Percent of Total		24.8%		64.1%		4.4%		6.7%
Total DPHHS Reductions	$9,601,759	$23,216,867						