

MEDICAID MONITORING REPORT

A Report Prepared for the
Legislative Finance Committee

By
Scot Conrady, Fiscal Analyst
Cynthia Hollimon, Fiscal Analyst
Quinn Holzer, Fiscal Analyst

March 10, 2016

INTRODUCTION

As part of its interim work plan, the Legislative Finance Committee (LFC) chose to monitor the Medicaid program administered by the Department of Public Health and Human Services (DPHHS) via a report at each committee meeting. This report covers Medicaid benefits only, which is a subset of total Department of Health and Human Services expenditures.

FY 2016 MEDICAID FUNDING AND ESTIMATED EXPENDITURES

The table on the following page labeled “Monitoring Medicaid Services” shows initial Medicaid spending estimates compared to appropriations approved by the 2015 Legislature. The appropriations for FY 2016 include those approved in HB 2 and HB 4. Appropriations made in HB 4 would normally show up as budget changes, but because they were anticipated during session, the legislature was able to directly approve those items.

The FY 2016 final estimated expenditures are taken from DPHHS’ budget status report (BSR) submitted February 15, 2016. These estimates are based on actual expenditures through December 25th, 2015 and projected by the department using their Medicaid projection model.

Overall, Medicaid expenditures are currently projected to come in \$18.9 million under the total appropriation. However, the Health Resources Division (HRD) and the Addictive and Mental Health Resources Division (HRD) are in deficit when looked at individually. Additional authority remains in Senior and Long Term Care (SLTC) and the Developmental Services Division (DSD) sufficient to cover those shortfalls in HRD and AMDD. The department has the authority to make program transfers throughout the interim, and have historically managed the overall budget in this manner. The 2015 Legislative Session also provided additional authority in HB 2 in the form of language acting as a “trigger” in case expenditures exceeded appropriation authority. This report will continue to monitor expenses and projections throughout the interim.

BUDGET CHANGES

Within HRD, Medicaid Healthy Montana Kids (HMK) authority was transferred to non-Medicaid HMK benefits in the amount of \$7.9 million. This transfer removes authority from Medicaid services to non-Medicaid services. As can be seen in the following chart, this reduction of state special authority in HRD explains the majority of the deficit for overall state special Medicaid expenditures. The department has indicated additional changes will be forthcoming to realign the authority with this need.

Federal authority in the amount of approximately \$0.9 million was removed from DSD and is related to a reverted appropriation for FY 2015 that has no associated funding. The initial demonstration grant supported the Deficit Reduction Act for Medicaid and was carried forward with the 2015 base. This grant is no longer valid and is being removed as indicated.

Monitoring Medicaid Services
FY 2016 Appropriations Compared to DPHHS Projected Expenditures

Division / Fund	FY 2016 Legislative Appropriation	Estimated FY 2016 Expenditures ¹	Estimated Expenditures (Over) Under Appropriation	Balance as a Percent of Legis. Approp.	Changes in Appropriation Authority ²	Remaining Appropriation (Over) Under Exec. Budget	Balance as a Percent of Exec. Budget
Health Resources							
General Fund	\$141,742,250	\$143,968,589	(\$2,226,339)	-1.6%	\$0	(\$2,226,339)	-1.6%
State Special	64,381,509	64,551,219	(169,710)	-0.3%	(7,910,000)	(8,079,710)	-12.5%
Federal	<u>421,914,697</u>	<u>420,057,692</u>	<u>1,857,005</u>	<u>0.4%</u>	<u>0</u>	<u>1,857,005</u>	<u>0.4%</u>
Subtotal	628,038,456	628,577,500	(539,044)	-0.1%	0	(8,449,044)	-1.3%
Senior and Long Term Care							
General Fund	64,593,437	58,775,694	5,817,743	9.0%	0	5,817,743	9.0%
State Special	28,628,025	28,480,823	147,202	0.5%	0	147,202	0.5%
Federal	<u>185,835,522</u>	<u>174,729,043</u>	<u>11,106,479</u>	<u>6.0%</u>	<u>0</u>	<u>11,106,479</u>	<u>6.0%</u>
Subtotal	279,056,984	261,985,560	17,071,424	6.1%	0	17,071,424	6.1%
Developmental Services Division							
General Fund	68,098,067	65,824,780	2,273,287	3.3%	0	2,273,287	3.3%
State Special	6,032,539	6,032,539	0	0.0%	59	59	0.0%
Federal	<u>182,983,022</u>	<u>172,900,065</u>	<u>10,082,957</u>	<u>5.5%</u>	<u>(920,464)</u>	<u>9,162,493</u>	<u>5.0%</u>
Subtotal	257,113,628	244,757,384	12,356,244	4.8%	(920,405)	11,435,839	4.4%
Addictive and Mental Disorders							
General Fund	18,589,789	18,468,539	121,250	0.7%	0	121,250	0.7%
State Special	7,964,587	8,683,300	(718,713)	-9.0%	0	(718,713)	-9.0%
Federal	<u>53,175,715</u>	<u>53,742,341</u>	<u>(566,626)</u>	<u>-1.1%</u>	<u>0</u>	<u>(566,626)</u>	<u>-1.1%</u>
Subtotal	79,730,091	80,894,180	(1,164,089)	-1.5%	0	(1,164,089)	-1.5%
Grand Total All Medicaid Services							
General Fund	293,023,543	287,037,602	5,985,941	2.0%	0	5,985,941	2.0%
State Special	107,006,660	107,747,881	(741,221)	-0.7%	(7,909,941)	(8,651,162)	-8.1%
Federal	<u>843,908,956</u>	<u>821,429,141</u>	<u>22,479,815</u>	<u>2.7%</u>	<u>(920,464)</u>	<u>21,559,351</u>	<u>2.6%</u>
Grand Total All Funds	\$1,243,939,159	\$1,216,214,624	\$27,724,535	2.2%	(\$8,830,405)	\$18,894,130	1.5%

1 Estimated expenditures are based on the DPHHS February 15, 2016 budget status report (BSR). Medicaid projection data is based on claims paid as of December 25th.

2 Changes in appropriation authority can include: reorganizations, transfers of authority among Medicaid programs, transfers of authority to other DPHHS programs, reallocations of authority between program functions within a division and additions due to budget amendments.

MAJOR SERVICE CATEGORIES

The growth/decline in service costs can be monitored by examining expenses by major budget categories. The December report to the LFC showed the total projection of unspent appropriation authority for FY 2016 to be \$22.8 million. The February update includes both a reduction of \$5.0 million in estimated expenses from \$1.221 billion to \$1.216 billion and a budget transfer of \$7.9 million of state special revenue authority from Medicaid-funded HMK to CHIP-funded HMK. The net difference is a reduction in anticipated unspent appropriations from \$22.8 million to \$18.9 million. Service category spending fluctuations and projections typically change quarter to quarter and provide summation to the total balance.

Medicaid Summary by Major Service Category						
Service Category	FY 2015 Ending Expenses*	FY 2016 Modified Budget*	FY 2016 Budget Growth Over FY 2015	FY 2016 Expenditure Estimates*	FY2016 Estimate as a % of FY 2016 Budget	FY 2016 Projected Balance
Inpatient Hospital	\$92,931,787	\$101,865,428	9.6%	\$96,025,612	94.3%	\$5,839,816
Outpatient Hospital	54,151,695	56,749,899	4.8%	56,623,190	99.8%	126,709
Critical Access Hospital	52,406,504	52,070,643	-0.6%	53,280,411	102.3%	(1,209,768)
Hospital Utilization Fees / DSH	66,179,993	67,304,818	1.7%	68,210,037	101.3%	(905,219)
Other Hospital and Clinical Services	27,380,687	29,237,274	6.8%	28,979,091	99.1%	258,183
Physician and Psychiatrists	61,004,574	64,389,353	5.5%	68,725,387	106.7%	(4,336,034)
Other Practitioners	21,473,706	24,832,824	15.6%	23,493,872	94.6%	1,338,952
Other Managed Care Services	11,482,690	8,197,625	-28.6%	12,175,147	148.5%	(3,977,522)
Drugs & Part-D Clawback	118,670,854	123,064,201	3.7%	128,702,969	104.6%	(5,638,768)
Drug Rebates	(59,638,452)	(61,898,789)	3.8%	(60,421,429)	97.6%	(1,477,360)
Dental & Denturists	33,547,199	39,408,901	17.5%	40,637,721	103.1%	(1,228,820)
Durable Medical Equipment	14,620,635	16,258,364	11.2%	15,098,715	92.9%	1,159,649
Other Acute Services	3,471,857	4,242,092	22.2%	3,856,524	90.9%	385,568
Nursing Home & Swing Beds	144,469,669	148,687,093	2.9%	146,871,134	98.8%	1,815,959
Nursing Home IGT	15,547,238	19,003,357	22.2%	19,003,357	100.0%	0
Personal Care	40,418,637	51,683,454	27.9%	40,484,458	78.3%	11,198,996
Other SLTC Home Based Services	9,422,579	12,761,200	35.4%	10,109,027	79.2%	2,652,173
SLTC HCBS Waiver	39,788,352	45,627,575	14.7%	44,223,280	96.9%	1,404,295
Medicare Buy-In	30,444,789	34,115,536	12.1%	33,499,596	98.2%	615,940
Children's Mental Health	86,780,548	94,683,732	9.1%	96,288,891	101.7%	(1,605,159)
Adult Mental Health and Chem Dep	47,162,714	52,991,473	12.4%	51,280,014	96.8%	1,711,459
HIFA Waiver	17,598,245	24,756,751	40.7%	26,832,300	108.4%	(2,075,549)
Disability Services Waiver	106,773,374	118,087,876	10.6%	111,119,328	94.1%	6,968,548
Indian Health Services - 100% Fed funds	48,927,023	55,683,780	13.8%	54,916,231	98.6%	767,549
School Based Services - 100% Fed funds	35,174,020	40,834,816	16.1%	34,930,288	85.5%	5,904,528
MDC & ICF Facilities - 100% Fed funds	11,746,182	10,469,477	-10.9%	11,269,477	107.6%	(800,000)
Total	\$1,131,937,099	\$1,235,108,753	9.1%	\$1,216,214,628	98.5%	\$18,894,125
*Base data in this chart are copied directly from the February, 2015 Budget Status Report provided by DPHHS. Modified Budget represents FY 2016 appropriations less budget changes which move authority out of Medicaid services to non-Medicaid services.						

UPCOMING ISSUES RELATED TO MEDICAID

During the last eight months there have been several lawsuits in federal courts regarding the application of drugs used to treat hepatitis C. Class action suits have been filed in Indiana, Massachusetts, Minnesota, and Pennsylvania over the limitation of new, more costly, more effective drugs to treat the disease. In 2013, the FDA approved these highly effective drugs under the trademark names such as Sovaldi, Viekira Pak, and Harvoni. These drugs can cost approximately \$100,000 for a single treatment. Because the drugs are so expensive, states have been restricting the use of these drugs to patients exhibiting the most advanced stages of the disease.

Compared to the private sector, Medicaid participants have a slightly higher rate of hepatitis C. In addition, in some reports the rate of this disease among the corrections population has been found to be as much as 30 times higher than in the general public. The Department of Corrections indicated that there are a high number of offenders currently diagnosed with the disease in the Montana correction system, but to date there are only two offenders receiving the higher cost drug. Currently the department is managing the majority of hepatitis C cases under guidelines set for viral loads and other criteria using traditional treatments. Depending on the lawsuit, the cost of treatment of these individuals may increase significantly.

If courts decide that limiting the new drug is illegal, there could be a substantial impact on state expenditures. The LFD will continue to monitor actions taken with this issue and the potential fiscal implications to the state.

SB 405: HELP ACT MEDICAID EXPANSION

Benefits are now being provided under the Medicaid expansion. A separate report provides an update on the HELP Act.