



MONTANA LEGISLATIVE BRANCH

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Legislative Fiscal Analyst
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DATE: December 3, 2003
TO: Taryn Purdy
FROM: Legislative Finance Committee
RE: 2005 Biennium Budget Spending "Pressure Points"

The purpose of this memo is to highlight major expenditure areas to alert the committee to potential cost overruns or areas of concern. The areas highlighted are K-12 education, corrections, and human services. These areas are chosen because of both the potential for volatile expenditures, and the degree of impact changes can have on the overall fund balance. Currently, the LFD anticipates a supplemental in K-12 education. For both corrections and human services, there are concerns about current budget pressures.

K-12 EDUCATION

K-12 education will require an \$8.8 million supplemental as of this writing. This increase is due to two main factors:

- 1) Data from school district budgets for fiscal 2004 indicate that fiscal 2004 general fund costs for direct state aid and guaranteed tax base (GTB) will exceed estimates by around \$3.0 million. The reason for this increase is probably due to less fund balance carryover from fiscal 2003 than anticipated. This is likely due to lower collections of property tax from PPL, which protested its taxes, and from Northwestern, which did not pay Spring 2003 taxes until Fall 2003. The enrollment count for October 2003, which forms the basis for the ANB count used in fiscal 2005, indicates that ANB in fiscal 2005 will be 1,000 students more than anticipated. As a result, general fund distribution costs are anticipated to be \$2.7 million higher than originally thought.
- 2) A portion of funding for K-12 education is derived from interest and income (I&I) on the common school trust. The amount available from I&I is estimated, with the balance funded with general fund. If the actual I&I revenue is lower than anticipated, the appropriation of general fund needs to be increased. Of the total \$8.8 million, \$3.1 million is due to lower than anticipated I&I revenues due primarily to lower than anticipated interest rates, which offset higher expected oil and natural gas royalties on state lands.

CORRECTIONS

As of this writing, cost overruns are not foreseen for fiscal 2004. However, while fiscal 2004 expenditures should stay within the appropriation, there is cause for concern about expenditures in fiscal 2005. Upward trends in population, including currently higher than anticipated totals in

more expensive destinations such as secure care, will put additional pressures on expenditures. As such, measures to control or divert populations will have to be implemented. Measures currently being implemented by the Department of Corrections include close tracking of trends such as length of stay for non-violent offenders, and exploration of alternative treatment options. However, conditional release, which was used in the 2003 biennium to relieve population pressures, is not available to the same extent as previously, as inmates most likely to be eligible for conditional release have already been returned to the communities.

HUMAN SERVICES

Major types of occurrences that could have a deleterious effect on the budget of the Department of Public Health and Human Services (DPHHS) include (but are not limited to) changes in Medicaid or other program caseloads and/or utilization, institutional population increases, reductions in other anticipated sources of revenue, and/or lack of internal funding flexibility or availability to address these or other emergent issues.

There are two primary areas of concern: 1) institutional population; and 2) availability of federal funds.

- 1) Institutional Population - The population at Montana State Hospital (MSH) is currently at 199, with an additional 12 on leave and 1 in hospital (year to date average daily population through November is 189). The legislature budgeted for a population of 175.¹ In response, DPHHS has opened a transitional shelter on the MSH campus for people discharged and waiting for placement in communities. In addition, no bids were received to establish Behavioral Health Inpatient Facilities (BHIFs), which was a mechanism by which the department hoped to provide alternatives to hospitalization and relieve the population pressures on MSH. (The department is currently involved in discussions with the only provider that expressed an interest in the BHIF.)
- 2) Availability of Federal Funds - The federal mental health block grant is used to provide a significant portion of the costs of the mental health services plan (MHSP). The grant requires a state maintenance of effort in order to receive the grant. Due to reductions made to avoid general fund cost overruns in the 2003 biennium and maintained in the 2005 biennium, the state has informed the federal government that it will not meet the MOE. While the state has applied for an economic hardship exemption from the requirements, approval of the exemption is not assured. The grant totals about \$1.3 million each year, of which \$0.95 million would be in jeopardy.

While not an issue that would result in pressures on expenditures, an additional issue within DPHHS could result in a reduction in anticipated general fund revenues. The state was informed last spring that 19 individuals at the Montana Developmental Center (MDC) in Boulder were being decertified as Medicaid eligible, resulting in the loss of reimbursements deposited to the general fund of about \$2 million annually. Formal notification of decertification has not yet occurred. Thus, loss of Medicaid reimbursement for these individuals has not yet been implemented.

¹ The executive had requested funding for a population of 135, which included other budget considerations that were not adopted.

On a related note, the Governor has added \$1.5 million federal funds over the biennium to reduce vacancy savings applied to direct care staff positions that must be filled 24 hours a day, 7 days a week. This allocation addressed a budget issue that would likely have necessitated redirection of general fund, although not necessarily resulted in an overall agency cost overrun.

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