

Program Legislative Budget

The following table summarizes the total legislative budget for the program by year, type of expenditure, and source of funding. Also included in the table is HB 447 pay plan allocation.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	52.00	0.00	34.00	86.00	0.00	34.00	86.00	86.00
Personal Services	2,291,742	210,123	1,722,910	4,224,775	208,855	1,886,038	4,386,635	8,611,410
Operating Expenses	5,809,215	3,788,641	9,411,338	19,009,194	3,789,632	11,975,917	21,574,764	40,583,958
Grants	19	0	597,918	597,937	0	1,304,061	1,304,080	1,902,017
Benefits & Claims	347,662,820	58,807,055	62,462,925	468,932,800	87,158,962	69,638,286	504,460,068	973,392,868
Transfers	0	0	0	0	0	0	0	0
Debt Service	2,282	0	0	2,282	0	0	2,282	4,564
Total Costs	\$355,766,078	\$62,805,819	\$74,195,091	\$492,766,988	\$91,157,449	\$84,804,302	\$531,727,829	\$1,024,494,817
General Fund	71,665,419	25,676,781	651,391	97,993,591	33,660,551	(219,402)	105,106,568	203,100,159
State/Other Special	5,428,379	2,163,254	26,711,593	34,303,226	2,676,406	30,639,418	38,744,203	73,047,429
Federal Special	278,672,280	34,965,784	46,832,107	360,470,171	54,820,492	54,384,286	387,877,058	748,347,229
Total Funds	\$355,766,078	\$62,805,819	\$74,195,091	\$492,766,988	\$91,157,449	\$84,804,302	\$531,727,829	\$1,024,494,817

Program Description

The Health Resources Division (HRD) administers Medicaid primary care services, children's mental health services, the Children's Health Insurance Program (CHIP), and children's special health services. The purpose of the division is to improve and protect the health and safety of Montanans. The 2005 legislature approved two new programs (prescription drug assistance for low-income persons and health insurance tax credits and premium assistance) that will be fully or partially administered by HRD. The prescription drug assistance program will help persons with incomes under 200 percent of the federal poverty level pay for prescription drugs. The division will apply for a Medicaid waiver to include premium assistance for low-income workers of small employers and if approved administer the waiver.

The division provides a wide range of preventive, primary, and acute care services to individuals and communities. Services are provided through a broad range of private and public providers, including physicians, public health departments, clinics, and hospitals.

Acute and primary care services are provided through the Medicaid program and CHIP, and services for children with special health care needs. The division contracts with over 700 nonprofit providers for the delivery of health care services. Medicaid is a voluntary state/federal partnership to provide and finance these services to the aged, blind, disabled, or low-income families.

The division administers CHIP as a separate health insurance program and contracts with an insurance plan to provide medical services. CHIP dental and eyeglasses benefits are administered by the department.

Program Highlights

Health Resources Division (HRD)
Major Budget Highlights
<ul style="list-style-type: none"> ◆ The legislature created two new programs to implement voter initiative I-149 and appropriated \$22 million state special and federal revenue from tobacco tax increases and drug rebate revenue, including funding for 9.00 new FTE <ul style="list-style-type: none"> • A low income pharmacy assistance program (SB 324) - \$18 million in tobacco state special revenue and drug rebate revenue • A Medicaid waiver to augment health insurance premium assistance for low-income workers of small employers (HB 667) - \$2 million in tobacco state special revenue and federal Medicaid funds ◆ Medicaid caseload and service utilization changes add \$136 million, including \$24 million general fund ◆ Medicaid matching rate changes add \$29 million general fund and reduce federal funds by a like amount <ul style="list-style-type: none"> • \$15 million is due to the termination of the temporary 2.95 percent federal match rate increase in FY 2004 • \$15 million is due to annual changes in federal Medicaid match rates based on changes in each state's per capita income compared to national per capita income ◆ Legislative initiatives add \$106 million total funds for the following rate increases: <ul style="list-style-type: none"> • Hospitals - \$83 million, with \$14 million in bed tax revenue providing the state match • Physicians - \$5.5 million, with \$0.4 million general fund and \$1.2 million tobacco state special revenue as state match • Children's Medicaid mental health services - \$3 million, with \$0.9 million tobacco state special revenue as state match ◆ Legislative appropriations add nearly \$17 million in increases over FY 2004 base budget expenditures for CHIP, allowing enrollment to expand from 10,900 to 13,900 children ◆ A legislative initiative to raise the Medicaid asset limit from \$3,000 to \$15,000 for Medicaid eligibility for children (HB 552) adds \$6 million federal matching funds and health services for 3,775 more children <ul style="list-style-type: none"> • State matching funds of about \$2 million in tobacco tax state special revenue are appropriated in HB 552 ◆ Legislative funding supports 34.00 new FTE <ul style="list-style-type: none"> • 10.00 FTE for analysis of Medicaid program costs and management of the PASSPORT and pharmacy programs • 9.00 FTE to administer the low-income prescription drug assistance program (SB 324) • 7.00 FTE to help develop a children's system of care • 5.00 FTE for children's mental health regional representation • 2.00 FTE to manage CHIP expansion • 1.00 FTE to administer a Medicaid waiver for the health insurance premium program for low-income workers of small employers (HB 667)

Program Narrative

The 2007 biennium appropriation for the Health Resources Division (HRD) exceeds \$1 billion total funds, which is in excess of most biennial appropriations for individual agencies. Appropriations rise from base budget expenditures of \$356 million to \$532 million in FY 2007.

The lion's share of appropriation increases approved by the legislature support growth in benefits and claims for Medicaid and CHIP. The FY 2007 biennium appropriation compared to the base budget increases \$264 million in total funds for these two programs. The largest appropriation changes approved by the legislature are:

- Medicaid services
 - Service utilization and eligibility increases - \$91 million total funds, including \$24 million general fund and \$2 million in state special revenue interest income from the tobacco settlement trust fund
 - Hospital rate increases - \$83 million total funds, including \$25 million in state special revenue (hospital utilization fees contingent upon passage and approval of SB 120)
 - General fund increases of \$29 million and federal funding decreases of a like amount to reflect changes in the state/federal cost shares for direct Medicaid services
 - Indian Health Services - \$25 million in federal Medicaid pass through funds
 - School based services - \$16 million in federal Medicaid matching funds for Medicaid eligible services provided by schools and administrative costs
 - Medicare buy in - \$8 million total funds, including \$2 million general fund to pay Part A and Part B premiums for persons
 - Children's mental health Medicaid services - \$8 million total funds, including \$2 million general fund
 - Raising the Medicaid asset limit for children contingent upon passage and approval of HB 552 - \$5 million federal Medicaid matching funds (\$1.9 million tobacco tax state special revenue matching funds appropriated in HB 552)
 - Physician rate increases - \$5.5 million total funds, \$1.4 million tobacco state special revenue (I-149) and \$0.2 million general fund
 - Children's mental health rate increases - \$3 million total funds, including \$0.9 million tobacco tax state special revenue (I-149) funds
 - Breast and cervical cancer treatment for persons screened through the program managed by the Public Health and Safety Division - \$2 million total funds, including \$0.4 million general fund
- CHIP - \$24 million total funds, including state matching funds of \$1 million general fund and \$6 million in tobacco settlement and tobacco tax state special revenue to maintain enrollment at 10,900 children and add another 3,000 children for total enrollment of 13,900 annually

Major Policy Issues Considered by the Legislature

The most significant changes made by the legislature to the HRD function and budget are the approval of two new programs to implement a voter initiative (I-149) passed in November 2004 – a prescription drug assistance program for low-income Montanans (SB 324) and a health insurance tax credit and premium assistance program for small employers (HB 667). HRD will implement and administer the prescription drug program, while the State Auditor's Office will administer the tax credit and premium assistance program. As part of the total premium assistance program, HRD will develop and apply for a Medicaid waiver to help pay health insurance premiums for low-income workers of small employers.

The prescription drug assistance program adds \$20 million in state special revenue to the HRD 2007 biennium appropriation, including funds for 9.00 new FTE. The Medicaid waiver for the premium assistance program adds \$2 million, predominantly in federal Medicaid matching funds, and funding for 1.00 new FTE.

Both programs are heavily reliant on tobacco tax revenue generated by tax increases approved in I-149 and deposited to the health initiatives and Medicaid account. Both bills were amended to require that the Office of Budget and Program Planning (OBPP) project tobacco tax revenues by July 1. If projected revenue will be insufficient to fund the appropriations made from the health initiatives and Medicaid account, then OBPP is to direct agencies to amend

operating plans to reduce expenditures to remain within anticipated revenues. Additionally, all but \$1 million of the appropriations from the health initiatives and Medicaid account for the prescription drug program cannot be spent until the revenues in the account reach a balance of \$25 million or December 1, 2005, whichever ever comes first. Health initiatives and Medicaid account appropriations cannot be spent for the tax credit and premium assistance program until the account reaches \$25 million.

OBPP pledged in a letter sent to members of the Legislative Finance Committee that it would give first priority to funding Medicaid services and provider rate increases from the health initiatives and Medicaid account if projected revenues are insufficient to support all appropriations made by the legislature.

Other Legislative Initiatives

The legislature accepted the majority of the executive budget request for the Health Resources Division and added some of its own initiatives. Legislative initiatives include Medicaid provider rate increases for children's mental health and physicians, raising the asset limit from \$3,000 to \$15,000 per family for Medicaid eligibility for children (HB 552), and addition of 5.00 new FTE to help administer the Medicaid services programs.

FTE Increases

Personal services funding continues at about 1 percent of the total division budget, despite the addition of 34.00 new FTE and funding increases of about \$1.3 million per year. FTE increases include:

- 10.00 FTE to review Medicaid data to help identify areas of potential cost containment, and better service delivery and coordination, with 6.00 FTE added by legislative initiative
- 9.00 FTE to administer the prescription drug assistance program for low income Montanans (SB 324)
- 7.00 FTE to help develop a children's system of care
- 5.00 FTE placed in regions throughout the state to help administer mental health services for children,
- 2.00 FTE for CHIP
- 1.00 FTE to administer a Medicaid waiver program to help health insurance premiums for low income workers of small employers (HB 667)

Division Appropriation by Function

Figure 30 shows the HRD appropriation by major function. The totals in Figure 30 will not tie to total amounts shown in the main program table, because Figure 30 includes appropriations from HB 552 (expand Medicaid eligibility for children) as well as adjustments to base budget expenditures to include hospital rate increases due to the hospital daily bed tax implemented as a one-time-only adjustment in the 2005 biennium. Since the legislature approved SB 120 to continue the fee and because eligibility changes in HB 552 will be permanent, the costs are included to present a more realistic comparison to FY 2004 base budget expenditures and total 2007 biennium appropriations.

Figure 30
Fiscal 2004 Base Budget Compared to 2007 Biennium Appropriation, Including HB 552 in the Benefits Totals Section
Health Resources Division

Major Function and Services	FY 2004 Base Budget				FY 2006 Appropriation				FY 2007 Appropriation				% of Total
	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	
Major Function													
Medicaid Services	\$58,402,303	2,538,201	215,392,949	\$276,333,453	\$83,038,872	\$19,218,130	\$283,150,777	\$385,407,779	\$89,942,797	\$21,341,363	\$307,733,321	\$419,017,481	79%
Children's Health Resources	493,360	2,656,626	14,305,121	17,455,107	1,101,200	5,235,714	22,850,802	29,187,716	1,101,200	5,905,304	24,153,144	31,159,648	6%
Children's Mental Health	12,769,756	233,552	48,974,210	61,977,518	13,853,519	1,108,552	54,455,762	69,417,833	14,062,571	283,552	53,640,656	67,986,779	13%
Prescription Drug Program (SB 324)	0	0	0	0	0	8,728,000	0	8,728,000	0	11,192,240	0	11,192,240	2%
Health Insurance Premium Assistance Program (HB 667)	0	0	0	0	0	12,830	12,830	25,660	0	21,744	2,349,937	2,371,681	0%
Total Division Budget*	\$71,665,419	\$5,428,379	\$278,672,280	\$355,766,078	\$97,993,591	\$34,303,226	\$360,470,171	\$484,013,328	\$105,106,568	\$38,744,203	\$387,877,058	\$531,727,829	100%
Percent of Total	20%	2%	78%	100%	20%	7%	74%	100%	20%	7%	73%	100%	
Compounded Annual Rate of Change					17%	151%	14%	17%	7%	13%	8%	10%	
Benefits													
<u>Medicaid Services</u>													
Hospital Services	\$25,847,345	\$8,067,120	\$93,442,652	\$127,357,117	\$32,818,019	\$14,213,981	\$106,323,448	\$153,355,448	\$34,439,495	\$16,112,170	\$111,454,447	\$162,006,112	30%
Pharmacy Services	17,018,984	0	64,396,977	81,415,961	25,871,842	0	69,965,138	95,836,980	30,045,284	0	77,339,316	107,384,600	20%
Children's Mental Health Svcs	12,432,654	233,552	48,171,045	60,837,251	13,515,691	1,108,552	52,898,009	67,522,252	13,723,226	283,552	51,310,993	65,317,771	12%
Acute Services	4,871,238	0	15,021,851	19,893,089	7,852,143	2,058,952	28,497,511	38,408,606	7,119,645	4,130,188	31,795,158	43,044,991	8%
Managed Care Services	5,114,476	0	21,766,590	26,881,066	8,378,220	1,323,210	24,472,735	34,174,165	8,585,473	1,346,732	24,220,482	34,152,687	6%
Medicare Buy-In	2,949,965	0	9,295,635	12,245,600	4,584,693	0	10,865,057	15,449,750	5,165,456	0	11,842,350	17,007,806	3%
Cervical and Breast Cancer	297,774	0	1,269,896	1,567,670	471,883	0	1,950,101	2,421,984	554,601	0	2,241,319	2,795,920	1%
Indian Health Services	0	0	26,652,410	26,652,410	0	0	36,232,971	36,232,971	0	0	42,246,203	42,246,203	8%
<u>CHIP</u>	319,477	2,656,626	12,695,848	15,671,951	1,445,816	2,942,150	17,142,781	21,530,747	1,277,872	3,586,617	18,399,446	23,263,935	4%
<u>Prescription Drug Program</u>	0	0	0	0	0	6,000,000	0	6,000,000	0	8,750,000	0	8,750,000	2%
<u>Premium Assistance Program**</u>	0	0	0	0	0	0	0	0	0	0	2,328,163	2,328,163	0%
Adjustments	0	0	0	0	0	0	(267)	(267)	0	0	(267)	(267)	0%
Total Benefits*	\$68,851,913	\$10,957,298	\$292,712,904	\$372,522,115	\$94,938,307	\$27,646,845	\$348,347,484	\$470,932,636	\$100,911,052	\$34,209,259	\$373,177,610	\$508,297,921	96%
Percent of Total Benefits	18%	3%	79%	100%	20%	6%	74%	100%	20%	7%	73%	100%	
Compounded Annual Rate of Change					17%	59%	9%	12%	6%	24%	8%	8%	

*The totals shown in this table will not match the totals shown in the main program table due to several adjustments. First, expenditures from the hospital utilization fee authorized by HB 481 by the 2003 Legislature were removed from the FY 2004 base budget, but are included in this table. The legislature passed SB 120 to continue the fee. Second, the appropriation for state match included in HB 552 (expand Medicaid eligibility for children) is also included in this table for comparative purposes, since eligibility changes enacted by HB 552 will be permanent.

**The State Auditor will transfer site matching funds for the federal Medicaid matching funds.

Medicaid Services

Medicaid services administered by HRD are commonly referred to as “state plan” services, meaning that all Medicaid eligible persons are eligible for state plan services, which include services such as hospital, physician, pharmacy, physical therapy, speech therapy, and dental services. The division also administers children’s mental health services and special health services for low-income children.

Medicaid services are funded by a combination of general fund, state special revenue, and federal Medicaid funds. State special revenue includes tobacco settlement revenues, interest income from the tobacco settlement constitutional trust fund, and payments from insurance companies for Medicaid eligible persons with private insurance.

Medicaid funded hospital services are the largest expenditure component shown in base budget expenditures, with \$128 million for services, including \$30 million in additional reimbursements from the hospital utilization fee imposed by HB 481 approved by the 2003 Legislature (15-66-102, MCA). Hospitals proposed the fee, which was approved by the Centers for Medicare and Medicaid Services (CMS). The fee income was used to draw down additional federal Medicaid matching funds to increase Medicaid payment rates. Figure 30 includes these payments even though they were removed from the HRD base budget as a one-time expenditure, since the utilization fee was imposed only during the 2005 biennium. The 2005 legislature passed SB 120 to continue the fee.

Pharmacy services have grown rapidly over the years, and are projected to exceed \$100 million annually by FY 2007. However, part of Medicaid pharmacy costs are offset by rebate payments made by drug manufacturers as a condition of participating in the Medicaid program. Pharmacy costs recorded in the state accounting system reflect the net of expenditures less rebates. Historically, rebates have ranged from 18 to 20 percent of total pharmacy costs. The amounts shown in Figure 30 are net of pharmacy rebate income.

Pharmacy Cost Containment

The amount for Medicaid pharmacy costs in Figure 30 is also net of several cost containment initiatives implemented by DPHHS late in the 2005 biennium and those proposed for the 2007 biennium and adopted by the legislature. Pharmacy costs are anticipated to decrease about \$11 million total funds over the biennium compared to FY 2004 expenditures.

Preferred Drug List

HRD began designing a preferred drug list (PDL) in the late summer of 2004, with a completion date in early 2005. The purpose of a PDL is to establish the most effective drug or drugs in treating a specific disease or medical condition and include those drugs on the preferred drug list. Other “non approved” drugs must then be prior approved in order for the prescription to be covered by Medicaid. (Clients still receive 3 days of prescription coverage even if the drug is not prior approved.) This process is already in place for generic drugs, so it will not impose new or unknown administrative burdens on physicians or Medicaid clients.

Pharmacy Purchasing Pool

DPHHS received federal approval during the 2005 legislative session to join an existing purchasing pool with 6 or 7 other states in order to negotiate additional rebate payments from drug manufacturers. The purchasing pool has more clout than an individual state such as Montana because there are more covered lives. DPHHS will receive additional rebate payments, and lower the overall cost of Medicaid pharmacy services.

Children’s Mental Health Services

Children’s mental health services were about \$61 million in base budget expenditures. HRD has been working on development of a children’s system of care, meaning that all public agencies that could be involved with a child and family come together to help identify and provide services to help keep the child in the family and in the community.

The executive budget anticipated and the legislature adopted \$1.5 million in mental health services savings over the biennium, due to implementation of systems of care Kids’ Management Authorities (KMAs) and expansion of KMAs to

more areas of the state. In addition, funding increases to place staff regionally throughout the state are anticipated to help keep children in lower levels of care.

Montana also received a grant from the Substance Abuse and Mental Health Services Administration (SAMHSA) to help implement the system of care. The grant will be available over the next several years and funds 7.00 FTE.

Managed Care Medicaid Services

There are some components of managed care in the state Medicaid program, including

- Nurse First - a disease management program for asthma, heart disease, diabetes, and some high cost cases
- Passport - a primary doctor/gate keeper program

The cost for managed care services totaled about \$61 million during FY 2004. The legislature approved use of \$2.6 million from the health initiatives and Medicaid account (I-149) for state Medicaid match.

Acute Services

Acute Medicaid services include physician services, durable medical equipment, school based services reimbursement, and therapy services such as speech therapy, physical therapy, and occupational therapy. The FY 2007 appropriation for acute services more than doubles over base budget expenditures due to:

- Reimbursement for Medicaid administrative match claiming by schools, which is 100 percent federal funded
- Rate increases added by legislative initiative for physicians and other providers and funded from the Health initiatives and Medicaid account
- Eligibility expansion for children (HB 552)

Medicare Buy-In

The Medicaid program pays for Medicare Part A and Part B coverage for persons who are eligible for both Medicare and Medicaid. Medicare then pays for a share of medical costs that would otherwise be paid for by Medicaid. This program grows from \$12 to \$17 million over the 2007 biennium due to anticipated enrollment and premium increases. Eligibility increases could be greater due to the outreach associated with the Medicare Modernization Act.

Cervical and Breast Cancer

Montana accepted federal funds to screen persons for breast and cervical cancer. As a condition of receiving the grant, Medicaid eligibility is extended to persons with incomes under 200 percent of the federal poverty level who participate in the screen and who are determined to have breast or cervical cancer. The Medicaid services covered are those included in the basic Medicaid service package available to low-income adults with children. The cost of providing services for persons with breast and cervical cancer grows from \$2 to \$3 million by the end of the 2007 biennium.

Indian Health Services

Indian Health Services providers receive Medicaid reimbursement for services provided to Medicaid eligible tribal members. The reimbursement is 100 percent federally funded and is estimated to increase from \$27 million in the base budget to \$42 million in FY 2007.

Children's Health Insurance Program (CHIP)

CHIP base budget expenditures were about \$16 million and grow to \$23 million in FY 2007. State general fund match rises from \$0.3 million to \$1 million and state special revenue grows from \$3 million to \$4 million, largely due to appropriation of Medicaid and health initiative revenues to support the CHIP state match. Enrollment is expected to increase from 10,900 to 13,900 children annually.

Prescription Drug Program

HRD will be implementing the new prescription drug program for low-income Montanans, with an expected enrollment start date of January 1, 2006 to coincide with the new Medicare prescription drug benefit (Medicare Modernization Act). The \$20 million appropriation is allocated mostly to direct services to individuals (\$15 million). The fiscal note for SB

324 anticipates that about 20,000 persons will participate in the program. Additionally, the appropriation will support a pharmacy assistance line for Montanans, with the anticipation that the program will receive up to 6,000 calls by FY 2007.

Program administration costs will be paid by drug rebates from drug companies participating in the program. It is estimated that the rebate revenue will average 4 percent of total prescription costs. The legislature appropriated \$4 million of rebate revenue to support program administration, which includes the costs of the pharmacy technical assistance phone line and website.

Health Insurance Tax Credit and Premium Assistance Program

The State Auditor’s Office will administer the health insurance tax credit and premium assistance program for small employers. HRD will develop and implement a Medicaid waiver to help pay health insurance premiums for low-income workers of small employers. The legislature appropriated about \$2 million in federal Medicaid matching funds for the waiver. The State Auditor will transfer funds to DPHHS to pay the state Medicaid match.

Biennial Comparison

Figure 31 shows the 2005 biennium expenditures and appropriation compared to the 2007 biennium appropriation. The biennial comparison again illustrates the majority of appropriations in HRD support direct services to individuals – 95 percent. Although the increase in benefits appropriations shows the least percentage growth (32 percent) the dollar increase is the largest - \$235 million. The increase is fueled by Medicaid service changes, including some eligibility and service expansions as well as provider rate increases, predominantly for hospitals due to SB 120, which continued the bed tax fee. CHIP expansion, and the new prescription drug assistance and health insurance premium assistance programs also contribute to the growth in benefits and claims.

Budget Item/Fund	2005 Biennium	2007 Biennium	Percent of Total	Change	Percent Incr/Decr
FTE	52.00	86.00		34.00	65%
Personal Services	\$4,916,451	\$8,611,410	1%	\$3,694,959	75%
Operating	12,585,238	40,583,958	4%	27,998,720	222%
Equipment	0	0	0%	0	0%
Grants	13,070	1,902,017	0%	1,888,947	14453%
Benefits/Claims	738,306,380	973,392,868	95%	235,086,488	32%
Debt Service	4,565	4,564	0%	(1)	0%
Total Costs	<u>\$755,825,704</u>	<u>\$1,024,494,817</u>	<u>100%</u>	<u>\$268,669,113</u>	<u>36%</u>
General Fund	\$160,034,277	\$203,100,159	20%	\$43,065,882	27%
State Special	15,610,033	73,047,429	7%	57,437,396	368%
Federal Funds	580,181,394	748,347,229	73%	168,165,835	29%
Total Funds	<u>\$755,825,704</u>	<u>\$1,024,494,817</u>	<u>100%</u>	<u>\$268,669,113</u>	<u>36%</u>

The increase in grants funding is due to the federal SAMHSA grant to implement a system of care for children who need mental health services. Personal services costs support 34.00 new FTE as well as annualization of FY 2005 pay plan and 2007 biennium pay plan increases.

Operating cost increases include funds to support the new prescription drug program as well as other new staff funded by the legislature.

Funding

The following table shows program funding, by source, for the base year and the 2007 biennium as adopted by the legislature.

Program Funding		Program Funding Table Health Resources Division					
		Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01000	Total General Fund	\$ 71,665,419	20.1%	\$ 97,993,591	19.9%	\$ 105,106,568	19.8%
	01100 General Fund	71,665,419	20.1%	97,993,591	19.9%	105,106,568	19.8%
02000	Total State Special Funds	5,428,379	1.5%	34,303,226	7.0%	38,744,203	7.3%
	02142 Medicaid Third Party Revenue	858,686	0.2%	858,686	0.2%	858,686	0.2%
	02311 6901-02 Indrct Activty Prog 11	7,548	0.0%	8,151	0.0%	8,480	0.0%
	02763 Drug Rebates - Sb 324	-	-	1,728,000	0.4%	2,442,240	0.5%
	02766 End Stage Renal Checkoff - Sb 85	-	-	24,000	0.0%	24,000	0.0%
	02772 Tobacco Hlth & Medica Initiative	-	-	14,099,404	2.9%	15,708,087	3.0%
	02773 Childrens Special Health Services	-	-	200,000	0.0%	200,000	0.0%
	02789 6901-Chip/Mcha Tobacco Sett Fd	2,656,626	0.7%	3,090,787	0.6%	3,051,670	0.6%
	02987 Tobacco Interest	1,671,408	0.5%	2,555,562	0.5%	3,045,562	0.6%
	02989 69010-Hospital Utilization Fee	234,111	0.1%	11,738,636	2.4%	13,405,478	2.5%
03000	Total Federal Special Funds	278,672,280	78.3%	360,470,171	73.2%	387,877,058	72.9%
	03031 Maternal & Child Health	868,395	0.2%	876,536	0.2%	889,250	0.2%
	03426 Chip Program Fed	13,436,726	3.8%	19,620,123	4.0%	20,503,455	3.9%
	03580 6901-93.778 - Med Adm 50%	3,716,183	1.0%	7,636,501	1.5%	7,690,818	1.4%
	03582 93.778 - Med Ben 100%	26,652,410	7.5%	36,232,971	7.4%	42,246,203	7.9%
	03583 93.778 - Med Ben Fmap	233,870,025	65.7%	294,850,237	59.8%	314,530,067	59.2%
	03611 6901-03 Indrct Activty Prog 11	128,541	0.0%	137,514	0.0%	151,650	0.0%
	03794 Samsha Grant	-	-	1,116,289	0.2%	1,865,615	0.4%
Grand Total		<u>\$ 355,766,078</u>	<u>100.0%</u>	<u>\$ 492,766,988</u>	<u>100.0%</u>	<u>\$ 531,727,829</u>	<u>100.0%</u>

The Health Resources Division (HRD) is funded with general fund, state special revenue, and federal funds. The single most significant funding source is federal Medicaid matching funds, which account for nearly 69 percent of the FY 2007 appropriation when administrative and services funding is combined. The next most significant source of funding is general fund, which averages about 20 percent of funding from FY 2004 through FY 2007.

The majority (97 percent) of general fund in HRD is used to match federal Medicaid and Children's Health Insurance Program (CHIP) funds to provide direct services to individuals. About \$3 million funds administrative costs, and again, primarily the state match for Medicaid and CHIP program administration. General fund also supports the End Stage Renal Program (about \$92,000 annually with authorization in 50-44-102, MCA).

General fund increases nearly \$60 million comparing the 2007 biennium appropriation to base budget expenditures. The increase is due to projected growth in Medicaid costs and changes in the state match rate for Medicaid and CHIP. During the base budget year, the federal Medicaid match rate was raised temporarily by 2.95 percent, which causes 2007 biennium general fund costs to increase \$15 million in order to maintain the same level of Medicaid services. In addition, the normal annual adjustments to the federal Medicaid matching rate will increase the state match rate for Medicaid and CHIP during the 2007 biennium, causing general fund costs to increase \$15 million to maintain the same level of services. Altogether, changes in the state Medicaid match rate total \$29 million or nearly half of the \$60 million general fund increase. The largest share of the remaining balance of general fund change is due to Medicaid caseload growth (\$26 million), which is partially offset by anticipated savings due to enhanced management and oversight (\$3 million).

State special revenue provides 2 percent of base budget funding and rises to 7 percent in FY 2007. Sources of state special revenue, activities, and biennial appropriations are:

- o Hospital utilization fee (\$25 million) – a per inpatient bed day fee used as state match to draw down additional federal matching funds to increase Medicaid payments to hospitals
- o I-149 state special tobacco tax revenue from the health and Medicaid initiatives account - \$30 million over the biennium

- CHIP matching funds (\$5 million)
- Medicaid services matching funds (\$3 million)
- Medicaid match for rate increases and some service and eligibility expansions (\$2 million)
- Additional children's specialty health clinic (\$75,000)
- Tobacco settlement funds for CHIP state match (\$6 million)
- Interest from the tobacco settlement constitutional trust fund (\$6 million) – state Medicaid match
- Rebate income from drug manufacturers participating in the state prescription drug program for low-income persons (SB 324) - \$4 million
- Income tax check off state special revenue to support the end stage renal program - \$48,000

Federal funds include:

- Federal Medicaid matching funds (\$702 million over the biennium) – services and administrative costs
- CHIP federal matching funds (\$40 million over the biennium) – CHIP health services and administrative costs
- SAMHSA grant (\$3 million over the biennium) – federal Substance Abuse and Mental Health Services Administration grant to support development of children's system of care
- Maternal and Child Health Block Grant (\$2 million over the biennium) – federal funds for children's special health clinic services

Other Issues

Legislative staff raised an issue with timely response to requests for information during the budget analysis. Health Resources Division and legislative staff formulated a proposal to clarify that responses for mathematical documentation supporting fiscal publications or fiscal reports publicly disseminated by HRD would be provided with little delay. However, requests for information related to policies or questions of policy would require a longer response time.

The legislature also passed SB 93 clarifying when Medicaid expenditure reports were due to the Legislative Finance Committee for its review.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Each present law adjustment and new proposal will be discussed in the subprogram or function budget for this division. HRD functions are Medicaid services, children's health resources, children's mental health services, low-income prescription drug services, and Medicaid waiver health insurance premium assistance for low-income workers of small employers.

Present Law Adjustments												
-----Fiscal 2006-----					-----Fiscal 2007-----							
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds			
Personal Services				332,348					330,989			
Vacancy Savings				(104,962)					(104,910)			
Inflation/Deflation				(2,324)					(2,286)			
Fixed Costs				12,965					13,918			
Total Statewide Present Law Adjustments				\$238,027					\$237,711			
DP 13 - Medicaid Caseload - Child and Adult Medicaid	0.00	9,487,750	834,154	25,730,515	36,052,419	0.00	14,832,975	1,324,154	38,706,315	54,863,444		
DP 14 - Medicaid Caseload - Medicare Buy-In Program	0.00	938,495	0	2,265,655	3,204,150	0.00	1,424,855	0	3,337,362	4,762,217		
DP 17 - Medicaid Caseload - Children's Mental Health	0.00	1,083,037	0	2,614,596	3,697,633	0.00	1,290,572	0	3,022,836	4,313,408		
DP 20 - Medicaid Caseload - Breast and Cervical Cancer	0.00	174,109	0	680,205	854,314	0.00	256,827	0	971,423	1,228,250		
DP 23 - FMAP Enhancement Adjustment-Child & Adult Medicaid	0.00	7,504,153	0	(7,504,153)	0	0.00	7,504,153	0	(7,504,153)	0		
DP 29 - FMAP Adjustment - Child and Adult Medicaid	0.00	6,189,028	0	(6,189,028)	0	0.00	8,045,737	0	(8,045,737)	0		
DP 57 - Transportation Contract Federal Rate Change	0.00	150,000	0	0	150,000	0.00	150,000	0	0	150,000		
DP 60 - Rural Health Clinics / Qualified Health Centers	0.00	54,319	0	133,181	187,500	0.00	57,667	0	135,458	193,125		
DP 67 - Foundation Contract / Acute Care	0.00	8,112	0	19,888	28,000	0.00	8,361	0	19,639	28,000		
DP 121 - Indian Health Services	0.00	0	0	9,580,561	9,580,561	0.00	0	0	15,593,793	15,593,793		
DP 122 - School Based Services	0.00	0	0	7,507,268	7,507,268	0.00	0	0	8,457,993	8,457,993		
DP 3401 - Medicaid Match - I-149 Revenue	0.00	0	1,323,210	0	1,323,210	0.00	0	1,346,732	0	1,346,732		
DP 9999 - Statewide FTE Reduction	0.00	(17,263)	0	0	(17,263)	0.00	(17,224)	0	0	(17,224)		
Total Other Present Law Adjustments				\$25,571,740	\$2,157,364	\$34,838,688	\$62,567,792	0.00	\$33,553,923	\$2,670,886	\$54,694,929	\$90,919,738
Grand Total All Present Law Adjustments				\$62,805,819						\$91,157,449		

New Proposals

Program	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 38 - Manage Medicaid Pharmacy Program										
11	1.00	(1,165,170)	0	(3,353,302)	(4,518,472)	1.00	(834,359)	0	(2,494,238)	(3,328,597)
DP 42 - Enhance Efficiency of Children's Mental Health Services										
11	5.00	(55,958)	0	(418,384)	(474,342)	5.00	(54,354)	0	(395,714)	(450,068)
DP 43 - Medicaid Cost Analysis										
11	2.00	(19,573)	0	(122,865)	(142,438)	2.00	(24,179)	0	(124,578)	(148,757)
DP 44 - Medicaid Passport Services										
11	2.00	(13,425)	0	(14,426)	(27,851)	2.00	(13,520)	0	(14,559)	(28,079)
DP 110 - Continuation of Hospital Provider Tax (Requires Legislation)										
11	0.00	0	11,504,525	27,560,392	39,064,917	0.00	0	13,171,367	30,733,189	43,904,556
DP 115 - Specialty Clinic Cost Recovery (Requires Legislation)										
11	0.00	0	200,000	0	200,000	0.00	0	200,000	0	200,000
DP 146 - Develop System of Care for Children										
11	7.00	0	0	1,116,289	1,116,289	7.00	0	0	1,865,615	1,865,615
DP 3009 - Medicaid - Biennial										
11	0.00	0	601,571	1,452,473	2,054,044	0.00	0	0	0	0
DP 3192 - CHIP Enrollment to 10,900 Children Funding										
11	0.00	607,840	304,531	2,140,799	3,053,170	0.00	607,840	875,113	3,596,735	5,079,688
DP 3202 - Prescription Drug Program -- SB 324 (Restricted)										
11	0.00	0	6,000,000	0	6,000,000	0.00	0	8,750,000	0	8,750,000
DP 3206 - CHIP Expansion by 3,000 Children										
11	2.00	0	2,043,906	6,382,270	8,426,176	2.00	0	2,118,045	6,229,284	8,347,329
DP 3207 - Startup Funds for Prescription Drug Program (Biennial/Restricted)										
11	0.00	0	1,000,000	0	1,000,000	0.00	0	0	0	0
DP 3324 - Implement SB 324 - Staff and Operating Costs										
11	9.00	0	1,728,000	0	1,728,000	9.00	0	2,442,240	0	2,442,240
DP 3603 - Physician Rate Increase										
11	0.00	400,000	1,200,000	3,862,615	5,462,615	0.00	0	0	0	0
DP 3604 - Raise the Medicaid Asset Limit for Children										
11	0.00	0	0	0	0	0.00	0	0	5,847,754	5,847,754
DP 3605 - Additional Medicaid Management Staff										
11	5.00	0	0	(166,774)	(166,774)	5.00	0	0	(157,835)	(157,835)
DP 3606 - Children's Mental Health Provider Rate Increase										
11	0.00	0	875,000	2,112,368	2,987,368	0.00	0	0	0	0
DP 3609 - Income Tax Check Off - End Stage Renal										
11	0.00	0	24,000	0	24,000	0.00	0	24,000	0	24,000
DP 3667 - HRD -- Implement Provisions of HB 667										
11	1.00	0	12,830	12,830	25,660	1.00	0	21,744	2,349,937	2,371,681
DP 3700 - Nonhospital Provider Rate Increase, Dental Access										
11	0.00	858,952	858,952	5,410,263	7,128,167	0.00	0	2,253,872	5,094,061	7,347,933
DP 3701 - Cardiac and Pulmonary Rehabilitation										
11	0.00	0	56,465	136,314	192,779	0.00	0	120,750	282,826	403,576
DP 3702 - Flexible Funds for SED Waiver										
11	0.00	0	0	0	0	0.00	0	50,000	117,112	167,112
DP 3703 - Children's Special Health Care Clinic										
11	0.00	0	25,000	0	25,000	0.00	0	50,000	0	50,000
DP 3704 - EPSDT and Rate Increases										
11	0.00	0	272,717	658,376	931,093	0.00	0	551,350	1,291,397	1,842,747
DP 6010 - 2007 Biennium Pay Plan - HB 447										
11	0.00	38,725	4,096	62,869	105,690	0.00	99,170	10,937	163,300	273,407
Total	34.00	\$651,391	\$26,711,593	\$46,832,107	\$74,195,091	34.00	(\$219,402)	\$30,639,418	\$54,384,286	\$84,804,302

Language

The legislature approved the following language for inclusion in HB 2. The Governor has indicated his intent to line-item veto the language illustrated in *italic*. However, his authority to do so is questioned and may be challenged through legal action.

"Health Resources Division includes more than \$80 million annually in general fund money and federal special revenue for medicaid prescription drug costs. Effective January 1, 2006, with implementation of the medicare prescription drug benefit, medicaid prescription costs will decline at least 50%. Funds appropriated for medicaid prescription drug costs that would have been paid absent the medicare benefit may be used for the clawback payment to the federal government, for administrative costs to determine eligibility for the medicare low-income prescription discount and to manage appeals

and grievances related to the medicare prescription drug plan, and to update computer systems and implement federally required electronic transactions for the medicare prescription drug plan. *The department shall report to the legislative finance committee by September 1, 2005, and every 3 months thereafter on its plan to implement administrative duties related to the new medicare prescription drug benefit, progress in accomplishing major milestones in the plan, the costs that it has incurred, and other issues that it considers important.*

Health Resources Division includes \$326,000 in general fund money and federal special revenue over the biennium to contract for review and approval of certain medicaid expenditures. *The department shall report to the legislative finance committee by September 1, 2005, and every 6 months thereafter the types of reviews and outcomes because of this contract. The report must specifically include information on admissions to out-of-state hospitals.*

Health Resources Division includes funds to hire 2 FTE to perform analysis of the medicaid program to identify cost-saving measures. *The department shall report to the legislative finance committee by September 1, 2005, and every 6 months thereafter the types of reviews and outcomes because of the activities of the FTE.*

Health Resources Division includes funding for 2 FTE to manage and evaluate the passport to health program. *The department shall report to the legislative finance committee by September 1, 2005, and every six months thereafter the types of reviews and outcomes because of the activities of the FTE.*

Health Resources Division includes funding to support a contract for low-income medicaid recipients to call a "nurse first" line to help determine appropriate medical treatment. *The department shall report to the legislative finance committee by January 1, 2006, on whether this contract could be expanded to include the children's health insurance program and if cost-savings would be generated because of such an expansion.*

Physician Rate Increase may be used only to raise physician medicaid reimbursement closer to 95% of the medicare payment rate.

Item Additional Medicaid Management Staff may be used only for staff and operating costs. The funds may be used only to expand the team care program and for staff and operating costs for the physician, hospital, pharmacy, and passport medicaid programs. Funding for Additional Medicaid Management Staff must also be used to produce efficiencies and better access to the appropriate level of medical care. *The department shall prepare a report explaining the results of these expansions and projects by September 1, 2006, for the legislative finance committee.*

The direct-care wage increase for Children's Mental Health Rate Increase must be implemented no later than October 1, 2005."

Medicaid Services Legislative Budget

The following table summarizes the legislative budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	29.00	0.00	10.00	39.00	0.00	10.00	39.00	39.00
Personal Services	1,343,699	97,106	620,846	2,061,651	97,387	787,085	2,228,171	4,289,822
Operating Expenses	3,836,117	3,760,028	535,040	8,131,185	3,760,382	547,200	8,143,699	16,274,884
Grants	19	0	0	19	0	0	19	38
Benefits & Claims	271,153,618	55,109,422	48,951,884	375,214,924	82,845,554	54,646,420	408,645,592	783,860,516
Total Costs	\$276,333,453	\$58,966,556	\$50,107,770	\$385,407,779	\$86,703,323	\$55,980,705	\$419,017,481	\$804,425,260
General Fund	58,402,303	24,537,060	99,509	83,038,872	32,313,382	(772,888)	89,942,797	172,981,669
State/Other Special	2,538,201	2,157,603	14,522,326	19,218,130	2,670,886	16,132,276	21,341,363	40,559,493
Federal Special	215,392,949	32,271,893	35,485,935	283,150,777	51,719,055	40,621,317	307,733,321	590,884,098
Total Funds	\$276,333,453	\$58,966,556	\$50,107,770	\$385,407,779	\$86,703,323	\$55,980,705	\$419,017,481	\$804,425,260

Medicaid Services Appropriation

The Medicaid services function administers Medicaid state plan services, which are those that most closely resemble traditional health plan services, including inpatient and outpatient hospital, prescription drugs, physician, dental, durable medical equipment, and vision services. So, persons accessing Medicaid services in other divisions, such as nursing home or community services administered by Senior and Long-Term Care and Disability Services Division, are also eligible for services administered by HRD.

The 2007 biennium appropriation in HB 2 grows about \$253 million total funds (including \$56 million general fund) compared to the fiscal 2004 base budget expenditures. The primary changes are:

- Medicaid caseload and service utilization changes - \$136 million total funds (\$24 million general fund)
- State Medicaid match rate changes – increase general fund \$29 million with an offsetting decrease in federal funds
- Continuation of hospital utilization fee to draw down federal matching funds - \$83 million total funds
- Pharmacy program changes expected to reduce Medicaid costs by \$9 million total funds including \$3 million general fund
- Funding for 10.00 new FTE to:
 - Analyze Medicaid program expenditures to reduce costs
 - Manage the PASSPORT Program, which establishes a primary care doctor to help manage services for clients
 - Assist in management of several cost saving measures of the Medicaid pharmacy program
- HB 552 appropriates about \$2 million in tobacco state special revenue from I-149 to fund the expansion in Medicaid eligibility for children

Figure 32 shows each appropriation change adopted by the legislature for Medicaid state plan services. Figure 32 includes HB 2 and HB 552 appropriations, and also includes expenditures for hospital bed tax fee that were removed from the FY 2004 base budget. These changes were made so that expenditure trends would be more accurate. However, the totals shown in Figure 32 will not match the totals shown in the program table for Medicaid services due to the changes.

Figure 32

Health Resources Division 2007 Biennium Medicaid Appropriation by Component, Purpose, and Total

Medicaid Services	FY 2006				FY 2007				% of Change
	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	
Hospital Services*									
FY 2004 Base Budget*	\$25,847,345	\$8,067,120	\$93,422,652	\$127,337,117	\$25,847,345	\$8,067,120	\$93,422,652	\$127,337,117	
PL 13 - Caseload Change	1,325,663	884,154	6,056,466	8,266,283	2,170,424	1,374,154	9,028,533	12,573,110	11%
PL 24 - Enhanced Federal Match Rate	2,961,959	0	(2,961,959)	0	2,961,959	0	(2,961,959)	0	0%
PL 30 - FMAP Adj. - 2007 Biennium	2,746,667	0	(2,746,667)	0	3,520,792	0	(3,520,792)	0	0%
NP 60 - Rural Health Clinics	54,319	0	132,581	187,500	56,566	0	136,559	193,125	0%
NP 110 - Continue Hospital Tax (SB 120)	0	4,331,954	10,457,920	14,789,874	0	5,998,796	14,050,656	20,049,452	18%
NP 3009 - Med Biennium	0	601,571	1,452,473	2,054,044	0	0	0	0	0%
NP 3605 - Additional Medicaid Staff	(117,934)	0	(284,709)	(402,643)	(117,590)	0	(275,425)	(393,015)	0%
NP 3701 - Cardiac Pulmonary Rehab	0	56,465	136,314	192,779	0	120,750	282,826	403,576	0%
NP 3704 - EPSDT and Rate Increases	0	272,717	658,376	931,093	0	551,350	1,291,397	1,842,747	2%
Subtotal Appropriation Changes	\$6,970,674	\$6,146,861	\$12,900,795	\$26,018,930	\$8,592,150	\$8,045,050	\$18,031,795	\$34,668,995	31%
Total Hospital Appropriation	\$32,818,019	\$14,213,981	\$106,323,448	\$153,356,047	\$34,439,495	\$16,112,170	\$111,454,447	\$162,006,112	
Percent Increase Over Base Budget	27%	76%	14%	20%	33%	100%	19%	27%	
Pharmacy Services									
FY 2004 Base Budget	\$17,018,984	\$0	\$64,396,977	\$81,415,961	\$17,018,984	\$0	\$64,396,977	\$81,415,961	
PL 13 - Caseload Change	5,762,546	0	13,911,561	19,674,107	8,990,945	0	21,059,004	30,049,949	27%
DP 27 - Enhanced Federal Match Rate	2,401,771	0	(2,401,771)	0	2,401,771	0	(2,401,771)	0	0%
DP 23 - FMAP Adj. - 2007 Biennium	2,227,171	0	(2,227,171)	0	2,854,713	0	(2,854,713)	0	0%
NP 38 - Manage Medicaid Pharmacy Program	(1,538,629)	0	(3,714,459)	(5,253,088)	0	0	(2,860,183)	(4,081,311)	-4%
Subtotal Appropriation Changes	\$8,852,858	\$0	\$5,568,161	\$14,421,019	\$13,026,300	\$0	\$12,942,338	\$25,968,638	23%
Total Pharmacy Appropriation	\$25,871,842	\$0	\$69,965,138	\$95,836,981	\$30,045,284	\$0	\$77,339,316	\$107,384,600	
Percent Increase Over Base Budget	52%	0%	9%	18%	77%	0%	20%	32%	
Acute Services									
FY 2004 Base Budget	\$4,871,238	\$0	\$15,021,851	\$19,893,089	\$4,871,238	\$0	\$15,021,851	\$19,893,089	
PL 13 - Caseload Change	664,141	0	1,603,326	2,267,467	1,038,794	0	2,433,112	3,471,906	3%
DP 27 - Enhanced Federal Match Rate	586,846	0	(586,846)	0	586,846	0	(586,846)	0	0%
DP 23 - FMAP Adj. - 2007 Biennium	544,191	0	(544,191)	0	697,567	0	(697,567)	0	0%
PL 122 - School Based Services	0	0	3,907,268	3,907,268	0	0	4,857,993	4,857,993	4%
NP 43 - Medicaid Cost Analysis	(73,225)	0	(176,775)	(250,000)	(74,800)	0	(175,200)	(250,000)	0%
NP 3604 - Physician Rate Increase	400,000	1,200,000	3,862,615	5,462,615	0	0	0	0	0%
NP 3605 - Raise Medicaid Asset Limit	0	0	0	0	0	1,876,316	5,847,754	7,724,070	7%
for Children (HB 552 SSR Appropriation Shown)*									
NP 3700 - Nonhospital Provider Rate Increase	858,952	858,952	5,410,263	7,128,167	0	2,253,872	5,094,061	7,347,933	7%
Subtotal Appropriation Changes	\$2,980,905	\$2,058,952	\$13,475,660	\$18,515,517	\$2,248,407	\$4,130,188	\$16,773,307	\$23,151,902	21%
Total Acute Services Appropriation	\$7,852,143	\$2,058,952	\$28,497,511	\$38,408,606	\$7,119,645	\$4,130,188	\$31,795,158	\$43,044,991	
Percent Increase Over Base Budget	61%	0%	90%	93%	46%	0%	112%	116%	
Managed Care Services									
FY 2004 Base Budget	\$5,114,476	\$0	\$21,766,591	\$26,881,067	\$5,114,476	\$0	\$21,766,591	\$26,881,067	
PL 13 - Caseload Change	1,735,400	0	4,189,488	5,924,888	1,735,400	0	4,189,488	5,924,888	5%
DP 27 - Enhanced Federal Match Rate	792,991	0	(792,991)	0	792,991	0	(792,991)	0	0%
DP 23 - FMAP Adj. - 2007 Biennium	735,352	0	(735,352)	0	942,605	0	(942,605)	0	0%
PL 3401 - Medicaid Match - I-149	0	1,323,210	0	1,323,210	0	1,346,732	0	1,346,732	1%
Subtotal Appropriation Changes	\$3,263,744	\$1,323,210	\$2,661,144	\$7,248,098	\$3,470,997	\$1,346,732	\$2,453,891	\$7,271,620	6%
Total Managed Care Appropriation	\$8,378,220	\$1,323,210	\$24,427,735	\$34,129,165	\$8,585,473	\$1,346,732	\$24,220,482	\$34,152,687	
Percent Increase Over Base Budget	64%	n/a	12%	27%	68%	n/a	11%	27%	
Medicare Buy-in									
FY 2004 Base Budget	\$2,949,965	\$0	\$9,295,635	\$12,245,600	\$2,949,965	\$0	\$9,295,635	\$12,245,600	
PL 14 - Caseload Change	938,495	0	2,265,655	3,204,150	1,424,844	0	3,337,362	4,762,206	4%
DP 27 - Enhanced Federal Match Rate	361,245	0	(361,245)	0	361,245	0	(361,245)	0	0%
DP 23 - FMAP Adj. - 2007 Biennium	334,988	0	(334,988)	0	429,401	0	(429,401)	0	0%
Subtotal Appropriation Changes	\$1,634,728	\$0	\$1,569,422	\$3,204,150	\$2,215,491	\$0	\$2,546,715	\$4,762,206	4%
Total Medicare Buy-in Approp.	\$4,584,693	\$0	\$10,865,057	\$15,449,750	\$5,165,456	\$0	\$11,842,350	\$17,007,806	
Percent Increase Over Base Budget	-45%	0%	-83%	-74%	-25%	0%	-73%	-61%	
Breast and Cervical Cancer									
FY 2004 Base Budget	\$297,774	\$0	\$1,269,896	\$1,567,670	\$297,774	\$0	\$1,269,896	\$1,567,670	
PL 20 - Caseload Change	174,109	0	680,205	854,314	256,827	0	971,423	1,228,250	1%
Total Breast/Cervical Cancer Approp.	\$471,883	\$0	\$1,950,101	\$2,421,984	\$554,601	\$0	\$2,241,319	\$2,795,920	
Percent Increase Over Base Budget	58%	0%	54%	54%	86%	0%	76%	78%	
Indian Health Services (IHS)									
FY 2004 Base Budget	\$0	\$0	\$26,652,410	\$26,652,410	\$0	\$0	\$26,652,410	\$26,652,410	
PL 121 - Caseload Change	0	0	9,580,561	9,580,561	0	0	15,593,793	15,593,793	14%
Total Indian Health Services Approp.	\$0	\$0	\$36,232,971	\$36,232,971	\$0	\$0	\$42,246,203	\$42,246,203	
Percent Increase Over Base Budget	0%	0%	36%	36%	0%	0%	59%	59%	
Appropriation Summary									
Grand Total Base Year Budget	\$56,099,782	\$8,067,120	\$231,826,013	\$295,992,915	\$56,099,782	\$8,067,120	\$231,826,013	\$295,992,915	
Present Law Adjustments - Caseload	10,654,673	2,808,935	43,779,584	57,243,792	15,673,800	2,720,886	61,607,266	80,001,952	71%
Federal Match Changes	13,693,181	0	(13,693,181)	0	15,549,890	0	(15,549,890)	0	0%
Provider Rate Increases	1,258,952	6,663,623	20,389,174	28,311,749	0	8,804,018	20,436,114	29,240,132	26%
Initiatives to Reduce Costs	(1,729,789)	0	(4,175,942)	(5,905,731)	(1,413,518)	0	(3,310,808)	(4,724,326)	-4%
Service Expansions	0	56,465	136,314	192,779	0	1,997,066	6,130,580	8,127,646	7%
Subtotal Appropriation Changes	\$23,877,018	\$9,529,023	\$46,435,948	\$79,842,589	\$29,810,171	\$13,521,970	\$69,313,263	\$112,645,404	100%
Grand Total Annual Appropriation	\$79,976,800	\$17,596,143	\$278,261,961	\$375,835,503	\$85,909,953	\$21,589,090	\$301,139,275	\$408,638,319	

Hospital services receive 30 percent of the appropriations for Medicaid state plan services, followed by pharmacy at 20 percent, and children's mental health services at 12 percent. The balance of services listed in Figure 32 account for less than 10 percent each.

The single largest increase for hospital services is due to continuation of the hospital daily bed tax, which is used to increase rates paid to hospitals. The base budget for hospital services shown in Figure 32 includes \$28 million total funds (\$7 million state special revenue) that were removed from the base budget. Those amounts represent the hospital bed fee that was enacted as a one-time-only appropriation by the 2003 legislature. Since the bed tax was extended, it is included in Figure 32 for a more realistic comparison of biennial increases. The extension of the bed tax, authorized in SB 120, adds \$35 million over FY 2004 base expenditures for Medicaid hospital services, and accounts for 18 percent of the total appropriation change for Medicaid state plan services in FY 2007.

The amount shown for acute services in Figure 32 includes the tobacco state special revenue appropriated in HB 552 to fund the state matching funds to raise the family asset limit for Medicaid eligibility for children from \$3,000 to \$15,000. An additional 3,775 children are expected to receive health services through Medicaid due to passage of HB 552.

The legislature approved a \$191 million biennial increase for Medicaid services administered by Health Resources Division, including \$54 million general fund and \$23 million state special revenue when all major appropriations are added together. This change represents a 27 percent increase in FY 2006 above base level expenditures and a 38 percent increase in FY 2007. General fund changes are even greater due to the reduction in federal Medicaid match rates, increasing 43 percent and 53 percent respectively.

Present law adjustments for growth in the number of eligible persons and service utilization and inflation in pharmacy costs adds about \$136 million above the base budget expenditures or 71 percent of the FY 2007 increase. Provider rate increases add \$58 million or 26 percent of the FY 2007 increase. The growth in provider rate appropriations would be higher if the hospital base included only HB 2 appropriations and was not adjusted for FY 2004 hospital bed tax related expenditures in FY 2004.

Service expansions to increase the number of children eligible for Medicaid, and to add cardiac and pulmonary rehabilitation as a service, total about \$8 million in FY 2007 and will be double that amount when expenditures are annualized for the 2009 biennium base budget.

Initiatives to reduce costs lower expenditures about \$11 million total funds (\$3 million general fund) over the biennium. Figure 32 does not include any savings that might be allocated from the \$500,000 general fund reduction in Medicaid costs that was included in the Director's Office appropriation.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					175,119					175,375
Vacancy Savings					(60,750)					(60,764)
Inflation/Deflation					(1,504)					(1,491)
Fixed Costs					(16,468)					(16,127)
Total Statewide Present Law Adjustments					\$96,397					\$96,993
DP 13 - Medicaid Caseload - Child and Adult Medicaid	0.00	9,487,750	834,154	25,730,515	36,052,419	0.00	14,832,975	1,324,154	38,706,315	54,863,444
DP 14 - Medicaid Caseload - Medicare Buy-In Program	0.00	938,495	0	2,265,655	3,204,150	0.00	1,424,855	0	3,337,362	4,762,217
DP 20 - Medicaid Caseload - Breast and Cervical Cancer	0.00	174,109	0	680,205	854,314	0.00	256,827	0	971,423	1,228,250
DP 23 - FMAP Enhancement Adjustment-Child & Adult Medicaid	0.00	7,504,153	0	(7,504,153)	0	0.00	7,504,153	0	(7,504,153)	0
DP 29 - FMAP Adjustment - Child and Adult Medicaid	0.00	6,189,028	0	(6,189,028)	0	0.00	8,045,737	0	(8,045,737)	0
DP 57 - Transportation Contract Federal Rate Change	0.00	150,000	0	0	150,000	0.00	150,000	0	0	150,000
DP 60 - Rural Health Clinics / Qualified Health Centers	0.00	54,319	0	133,181	187,500	0.00	57,667	0	135,458	193,125
DP 67 - Foundation Contract / Acute Care	0.00	8,112	0	19,888	28,000	0.00	8,361	0	19,639	28,000
DP 121 - Indian Health Services	0.00	0	0	9,580,561	9,580,561	0.00	0	0	15,593,793	15,593,793
DP 122 - School Based Services	0.00	0	0	7,507,268	7,507,268	0.00	0	0	8,457,993	8,457,993
DP 3401 - Medicaid Match - I-149 Revenue	0.00	0	1,323,210	0	1,323,210	0.00	0	1,346,732	0	1,346,732
DP 9999 - Statewide FTE Reduction	0.00	(17,263)	0	0	(17,263)	0.00	(17,224)	0	0	(17,224)
Total Other Present Law Adjustments	0.00	\$24,488,703	\$2,157,364	\$32,224,092	\$58,870,159	0.00	\$32,263,351	\$2,670,886	\$51,672,093	\$86,606,330
Grand Total All Present Law Adjustments					\$58,966,556					\$86,703,323

DP 13 - Medicaid Caseload - Child and Adult Medicaid - The legislature added \$91 million total funds, including \$24 million in general fund, over the biennium for Medicaid caseload growth and changes in service utilization. Costs are estimated to grow by slightly less than 6 percent per year. The caseload changes are considered a present law adjustment since these Medicaid services are an entitlement – meaning that all persons eligible for services must be provided medically necessary services.

DPHHS uses a complex set of projections from several sources to estimate these changes. Statistics and trends relating to monthly eligibility, type of provider, number of services, cost per service, and health care inflation are taken into account in the projections. This adjustment includes only projected changes in the eligible population, and changes in the acuity level of the eligible population.

DP 14 - Medicaid Caseload - Medicare Buy-In Program - The legislature approved the executive request for \$8.0 million over the biennium with \$2.4 million general fund to pay expected increases in premiums for Medicare Part A and Part B and in the number of persons eligible for coverage. The Medicare buy-in program allows state Medicaid programs to purchase Medicare coverage through premium payments for Medicaid recipients who are dually eligible for Medicare and Medicaid. Medicare then covers the cost of most services for the individual with no further Medicaid liability. Medicaid would only be liable for the costs of non-Medicare covered services, and for co-insurance and deductibles related to services utilized.

This appropriation does not include any increases due to outreach for the new Medicare Part D prescription drug program, which is expected to identify and add persons eligible for the Buy-In, but not enrolled.

DP 20 - Medicaid Caseload - Breast and Cervical Cancer - The legislature accepted the executive request to add \$2

million for the biennium including \$0.4 million general fund to provide continued funding for Medicaid expenditures related to the breast and cervical cancer treatment program for those individuals determined to be Medicaid eligible.

DP 23 - FMAP Enhancement Adjustment-Child & Adult Medicaid - The federal Medicaid match rate was raised temporarily by 2.95 percent in FY 2004 as part of federal fiscal relief for states. This proposal adds \$15 million general fund and reduces federal funds by a like amount to reflect the fiscal impact and loss of the temporary reduction.

DP 29 - FMAP Adjustment - Child and Adult Medicaid - This adjustment adds \$13 million general fund and reduces federal funds by a like amount to reflect the annual changes in federal Medicaid match rates that will occur during the 2007 biennium. The federal match rate for each state is determined by changes in the per capita income of a state compared to national per capita income. This fund switch supports the level of Medicaid expenditures in FY 2004 only, while DP 13 includes the match rate change for caseload and service utilization growth as a part of the caseload changes for the 2007 biennium.

DP 57 - Transportation Contract Federal Rate Change - The legislature appropriated \$0.3 million general fund due to a recent federal rule change made by the Center for Medicare and Medicaid Services (CMS). The federal matching rate for the transportation utilization contract was reduced from 75 to 50 percent. The contract controls costs in the transportation program by ensuring that clients are utilizing medical services closest to their home and that the client attended the medical appointment. This change adjusts current level expenditures for the new match rate.

DP 60 - Rural Health Clinics / Qualified Health Centers - The legislature accepted the executive request to add \$0.4 million, including \$0.1 million general fund, to pay for Medicaid services provided by Rural Health Clinics and Federally Qualified Health Centers. These centers provide services funded by Medicaid. These facilities are paid an all-inclusive prospective payment amount per patient visit. The per visit payment amounts are required to be increased each year by the Medicare Economic Index due to the federal Benefit Improvement and Protection Act.

DP 67 - Foundation Contract / Acute Care - The legislature accepted the executive request to add \$28,000 per year to reissue a contract for utilization review services, funded 25 percent general fund and 75 percent federal funds. The additional amount covers an increase in the number of non-emergent hospital emergency department claims that would be reviewed and an increase in the number of cases being sent to peer review. The current contract duties include:

- Review of out-of-state inpatient hospital admissions - it is the intent of the Montana Medicaid program to require Medicaid recipients to utilize services available within the State of Montana when it is medically appropriate
- Review of in-state inpatient rehabilitation admissions – DPHHS requires prior authorization (PA) and continued stay reviews for these services to avoid reimbursement of services not requiring acute inpatient care
- Prior authorization of transplant services – Prior authorization is required on all transplant services for children and for the four services covered for adults
- Retrospective review to determine appropriateness of treatment
- Management of high cost cases
- Medical consultation support
- Coordination of activity with the transportation authorization contractor

DP 121 - Indian Health Services - The legislature appropriated \$25 million in federal funds for Indian Health Services caseload and the federal rate increases for the Medicaid Indian Health Services program, which is 100 percent federally funded. The Montana Indian Health Services is making a concerted effort to identify all Medicaid eligible persons who are also Indian Health Services recipients and to bill appropriately for services. Accordingly, this program has had substantial growth in the past and is expected to continue to grow through the next biennium.

The legislative initiative (DP 3602 – Tribal Programs in the Director's Office) adds funding for 1.00 FTE to assist tribes in accessing federal Medicaid pass through funding to help support Indian Health Services.

DP 122 - School Based Services - The legislature added \$16 million in federal authority for the Medicaid school-based services contract. Montana schools are providing services that are eligible for federal Medicaid reimbursement and have a potential for receiving a reimbursement of \$7 to \$10 million in covered Medicaid services. FY 2004 base expenditures were \$6 million.

DP 3401 - Medicaid Match - I-149 Revenue - The legislature accepted the executive recommendation to use \$2.6 million in tobacco settlement state special revenue funds over the biennium for Medicaid matching funds. Federal matching funds of \$4 million are also appropriated.

DP 9999 - Statewide FTE Reduction - The legislature accepted the executive proposal to reduce personal services funding equivalent to the reduction taken in the 2003 legislative session, but did not remove 0.75 FTE as included in the executive budget. An additional \$34,000 general fund in vacancy savings was applied over the biennium.

New Proposals

Sub Program	FTE	Fiscal 2006				Fiscal 2007				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 38 - Manage Medicaid Pharmacy Program										
01	1.00	(1,165,170)	0	(3,353,302)	(4,518,472)	1.00	(834,359)	0	(2,494,238)	(3,328,597)
DP 43 - Medicaid Cost Analysis										
01	2.00	(19,573)	0	(122,865)	(142,438)	2.00	(24,179)	0	(124,578)	(148,757)
DP 44 - Medicaid Passport Services										
01	2.00	(13,425)	0	(14,426)	(27,851)	2.00	(13,520)	0	(14,559)	(28,079)
DP 110 - Continuation of Hospital Provider Tax (Requires Legislation)										
01	0.00	0	11,504,525	27,560,392	39,064,917	0.00	0	13,171,367	30,733,189	43,904,556
DP 3009 - Medicaid - Biennial										
01	0.00	0	601,571	1,452,473	2,054,044	0.00	0	0	0	0
DP 3603 - Physician Rate Increase										
01	0.00	400,000	1,200,000	3,862,615	5,462,615	0.00	0	0	0	0
DP 3604 - Raise the Medicaid Asset Limit for Children										
01	0.00	0	0	0	0	0.00	0	0	5,847,754	5,847,754
DP 3605 - Additional Medicaid Management Staff										
01	5.00	0	0	(166,774)	(166,774)	5.00	0	0	(157,835)	(157,835)
DP 3609 - Income Tax Check Off - End Stage Renal										
01	0.00	0	24,000	0	24,000	0.00	0	24,000	0	24,000
DP 3700 - Nonhospital Provider Rate Increase, Dental Access										
01	0.00	858,952	858,952	5,410,263	7,128,167	0.00	0	2,253,872	5,094,061	7,347,933
DP 3701 - Cardiac and Pulmonary Rehabilitation										
01	0.00	0	56,465	136,314	192,779	0.00	0	120,750	282,826	403,576
DP 3704 - EPSDT and Rate Increases										
01	0.00	0	272,717	658,376	931,093	0.00	0	551,350	1,291,397	1,842,747
DP 6010 - 2007 Biennium Pay Plan - HB 447										
01	0.00	38,725	4,096	62,869	105,690	0.00	99,170	10,937	163,300	273,407
Total	10.00	\$99,509	\$14,522,326	\$35,485,935	\$50,107,770	10.00	(\$772,888)	\$16,132,276	\$40,621,317	\$55,980,705

DP 38 - Manage Medicaid Pharmacy Program - The legislature added funds to support 1.00 new FTE and offset administrative costs with savings of nearly \$2 million in general fund and \$8 million in total funds. This proposal will provide for the implementation, monitoring, and management of the Medicare "clawback" provision, the utilization of prescription drugs, the preferred drug list program, and the pharmacy audit review. The clawback provision and changes in drug coverage due to the Medicare Modernization Act are discussed in greater detail in the DPHHS overview.

This appropriation will also fund contract increases to hire an additional 0.50 FTE pharmacist to ensure Medicaid recipients are using prescription drugs appropriately. The current contract supports 0.50 FTE to perform the pharmacy case management program. The program has been functional since October 2003 and through June 2004; the total projected annualized cost savings are \$449,038 for FY 2004. Due to several months of start-up, the annualized savings are projected to be \$697,000 in total funds. By hiring a new 0.50 pharmacist, the HRD estimates it could double the annual estimated savings.

This appropriation will also permanently fund the 1.00 FTE modified position to administer the preferred drug list (PDL) to reduce the growth rate of the Medicaid Pharmacy program.

DP 43 - Medicaid Cost Analysis - The legislature funded 2.00 new FTE that are currently in modified, off budget positions. The FTE were hired to perform functions previously provided through a private contractor and contracted expenses were reduced.

These positions will perform selected analysis of Medicaid claims to identify areas where efficiencies can be made and services improved. For instance, the FTE will review emergency room utilization to determine whether persons should have been treated in a different setting and how to get persons to access more appropriate, less costly services.

DP 44 - Medicaid Passport Services - The legislature added funds for 2.00 FTE that are currently in modified, off budget positions. These positions are responsible for quality assurance and utilization review activities designed to maintain and improve medical access and quality of care through the Medicaid Passport program. HRD is estimating biennial savings of \$26,945 general fund and \$55,930 total funds due to this change. DPHHS hired staff to replace a contracted function at an estimated savings of \$27,000 general fund and \$29,000 federal funds over the 2007 biennium.

DP 110 - Continuation of Hospital Provider Tax - The legislature appropriated \$25 million state special revenue and \$58 million federal authority over the biennium to continue the daily utilization fee paid by all hospitals and the increased payments to hospitals providing Medicaid services. This tax assesses hospitals a fee per inpatient day. The state in turn uses the fee income to match with federal Medicaid funds to increase hospital Medicaid reimbursements.

The utilization fee collected from the hospitals is estimated to be \$11.5 million for FY 2006 and \$13 million for FY 2007, which is matched with federal funds to produce additional hospital Medicaid payments of \$39 million for FY 2006 and \$44 million for FY 2007. The 2003 Legislature initiated and funded this program through HB 481, which terminates on June 30, 2005. Continuation of the fee was authorized by SB 120.

Hospital bed fees were removed from the FY 2004 base budget. Fee income of \$7 million was removed, along with federal matching funds of about \$21 million. Figure 32 includes the amount of hospital bed fee income and federal Medicaid matching funds that were removed from the base budget to illustrate the incremental increase in the 2007 biennium.

DP 3009 - Medicaid - Biennial - The legislature accepted the executive recommendation to use \$601,571 in I-149 tobacco tax state special revenue over the biennium to continue Medicaid services at the level of the 2005 biennium. During the 2005 biennium, these services were funded through a one-time diversion of tobacco settlement funds authorized in 17-6-606, MCA (SB 485). Federal matching funds of \$1.5 million are also included in the appropriation.

DP 3603 - Physician Rate Increase - The legislature added \$5.5 million total funds, \$1.2 million tobacco state special revenue (I-149) and \$0.4 million general fund over the biennium to bring Medicaid rates for physician services up to 85 percent of the rate paid by Medicare. The legislature also added a condition that the rate increase be implemented by July 15, 2005, in order for the department to use its appropriations for several large divisions within DPHHS, including the Health Resources Division.

DP 3604 - Raise the Medicaid Asset Limit for Children - The legislature added \$1.9 million I-149 tobacco tax state special revenue and \$4.6 million federal funds over the biennium to change the Medicaid asset test for children contingent on passage and approval of HB 552, which raises the asset limit from \$3,000 to \$15,000 for a family. Medicaid has both a financial eligibility component and an asset component. Examples of assets that are included in Medicaid eligibility determination are: vehicles, boats, checking and savings account balances, burial policies, and tools. The appropriation is contingent on meeting the expenditure limitation in 17-8-106, MCA. HB 552 also contains an appropriation for implementation of \$1.9 million in I-149 tobacco tax state special revenue.

DP 3605 - Additional Medicaid Management Staff - The legislature added 5.00 FTE to expand Medicaid program management and oversight. Increases in operating costs (about \$470,000 over the biennium) are offset by service cost containment, netting to no overall increase in general fund costs and a reduction of about \$320,000 in federal funds. The legislature also requested that the department report to the members of the 2005 legislative Joint Appropriations Subcommittee on Health and Human Services about the projects undertaken by these FTE and estimated cost savings, efficiencies, and program enhancements.

The addition of these management/analyst staff were one of the reasons that the legislature reduced Medicaid general fund appropriations across the department by \$500,000 in FY 2007. The reduction is included in the Director's Office, with language specifying that the reduction may be allocated across all Medicaid programs as cost efficiencies, care improvements, and other innovations are applied.

DP 3609 - Income Tax Check Off - End Stage Renal - The legislature added \$24,000 per year for the end stage renal income tax program check off due to passage and approval of SB 85.

DP 3700 - Nonhospital Provider Rate Increase, Dental Access - The legislature approved the executive request for several provider rate increases and funds to increase access to dental services. The provider rate increases funded in this decision package are:

- o Physician rate increases
- o Children's mental health rate increase - 6 percent
- o Maternity rate increase
- o Neonatal services (to be paid at cost)

Appropriations also include funds to contract directly with dentists, potentially through Federally Qualified Health Centers, to provide dental services to Medicaid clients.

DP 3701 - Cardiac and Pulmonary Rehabilitation - The legislature accepted the executive proposal to add state special revenue from I-149 tobacco funds as Medicaid match to fund cardiac and pulmonary rehabilitation services. The legislature reduced the appropriation and delayed implementation until January 1, 2006. The legislature approved about \$200,000 in state matching funds and about \$400,000 in federal Medicaid matching funds over the biennium.

DP 3704 - EPSDT and Rate Increases - The legislature accepted the executive proposal to use I-149 funds as state Medicaid match to increase EPSDT (Early Periodic Screening, Diagnosis, and Treatment) for children and to provide rate increases for hospitals and ambulatory surgical centers. The legislature delayed implementation of the expansions until January 1, 2006. The total appropriation for these initiatives is about \$900,000 state special revenue over the biennium and about \$1.8 million in federal matching funds.

DP 6010 - 2007 Biennium Pay Plan - HB 447 - The legislature passed a pay plan in HB 447 that provides an additional 3.5 percent (or \$1,005, whichever is greater) in FY 2006 and an additional 4.0 percent (or \$1,188, whichever is greater) in FY 2007, as well as \$46 per month in insurance contributions in calendar 2006 and an additional \$51 per month in calendar 2007. These amounts represent the allocation of costs to this program to fund the pay plan.

Children's Health Care Resources Legislative Budget

The following table summarizes the legislative budget proposal for this function by year, type of expenditure, and source of funding.

Sub-Program Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	18.00	0.00	2.00	20.00	0.00	2.00	20.00	20.00
Personal Services	797,195	(415)	80,673	877,453	(1,788)	80,456	875,863	1,753,316
Operating Expenses	983,679	28,678	225,000	1,237,357	29,312	250,000	1,262,991	2,500,348
Benefits & Claims	15,671,951	0	11,398,673	27,070,624	0	13,346,561	29,018,512	56,089,136
Debt Service	2,282	0	0	2,282	0	0	2,282	4,564
Total Costs	\$17,455,107	\$28,263	\$11,704,346	\$29,187,716	\$27,524	\$13,677,017	\$31,159,648	\$60,347,364
General Fund	493,360	0	607,840	1,101,200	0	607,840	1,101,200	2,202,400
State/Other Special	2,656,626	5,651	2,573,437	5,235,714	5,520	3,243,158	5,905,304	11,141,018
Federal Special	14,305,121	22,612	8,523,069	22,850,802	22,004	9,826,019	24,153,144	47,003,946
Total Funds	\$17,455,107	\$28,263	\$11,704,346	\$29,187,716	\$27,524	\$13,677,017	\$31,159,648	\$60,347,364

Children's Health Resources

Children's health resources administers the CHIP program and Children's Special Health Services, which provides a series of special health clinics that treat children with facial anomalies such as cleft palate and children with metabolic diseases. Teams of medical specialists travel to different Montana locations where children and families can participate in the clinic. Funds that remain after clinic expenses have been paid are used for financial assistance to families for payment of medical bills.

The 2007 biennium appropriation is about \$25 million over FY 2004 base budget expenditures, with most of the growth in new proposals. Present law adjustments are limited to the statewide adjustments made to all appropriations - annualization of the FY 2005 pay plan increase and fixed cost adjustments. New proposals add:

- \$8 million in total funds (\$1 million in general fund) to maintain CHIP enrollment at 10,900
 - A portion of FY 2004 CHIP matching costs were paid from a one-time allocation of general fund that was freed up due to federal fiscal relief and authorized by the Governor and a portion of FY 2005 costs were paid from reappropriation of reverted general fund (per 17-7-304(4), MCA)
- \$17 million in total funds (\$4 million in state special revenue) to increase annual enrollment in CHIP to 13,900 children
- \$0.4 million in state special revenue payments from insurance and co-payments from parents whose children participate in the children's specialty health clinics
- \$0.1 million in tobacco tax state special revenue from I-149 to add another specialty health clinic

The legislature added funds for 2.00 new FTE to administer the CHIP expansion. Language in HB requires that the level of funding allocated to support the FTE must be proportional to the increase in enrollment. For instance, since the legislature based appropriations on an expected enrollment increase of 3,000 children but the increase was only 1,500 children, then only half of the funding could be allocated and 1.00 new FTE carried forward in the FY 2006 base budget.

Administration of CHIP Program

Legislative staff raised an issue for consideration by the legislature with regard to state administration of the CHIP program. When the CHIP program was originally established, the Governor recommended that it be a stand-alone insurance type product with benefit levels and coverage similar to that provided to state employees. All benefits are provided through contract with a private insurance carrier, except that HRD administers dental and vision services.

The current contractor:

- Accepts a monthly payment for each eligible child
- Establishes payment rates
- Establishes a provider network

- Pays all claims and tracks co-payment amounts
- Assumes financial risks if claims exceed revenues
- Provides selected management and claims payment data for state administrators

During the fall of 2004, the Legislative Finance Committee heard an update on the contract renegotiation for CHIP benefit administration. HRD staff noted that the CHIP plan administrator had reserves of slightly over \$3 million. Additionally, the contractor had used some of the reserves to fund charitable work of an organization closely related to the contractor.

HRD negotiated a contract renewal that:

- Used \$2 million of the reserve to pay for FY 2005 CHIP premiums in order to maintain enrollment at 10,900 children
- Did not include a premium increase for FY 2005
- Would allow consideration of using future reserves as premium payments unless the contract is canceled

HRD submitted a written analysis of state administration of CHIP late in appropriation subcommittee consideration of DPHHS appropriation levels. The legislature took no action with respect to state administration of the program.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					32,784					31,352
Vacancy Savings					(33,199)					(33,140)
Inflation/Deflation					(755)					(733)
Fixed Costs					29,433					30,045
Total Statewide Present Law Adjustments					\$28,263					\$27,524
Grand Total All Present Law Adjustments					\$28,263					\$27,524

Statewide present law adjustments add about \$55,000 over the biennium. State special revenue pays about \$11,000 and federal CHIP grant funds pay the balance.

New Proposals

New Proposals	Sub Program	FTE	-----Fiscal 2006-----				-----Fiscal 2007-----				
			General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 115 - Specialty Clinic Cost Recovery	02	0.00	0	200,000	0	200,000	0.00	0	200,000	0	200,000
DP 3192 - CHIP Enrollment to 10,900 Children Funding	02	0.00	607,840	304,531	2,140,799	3,053,170	0.00	607,840	875,113	3,596,735	5,079,688
DP 3206 - CHIP Expansion by 3,000 Children	02	2.00	0	2,043,906	6,382,270	8,426,176	2.00	0	2,118,045	6,229,284	8,347,329
DP 3703 - Children's Special Health Care Clinic	02	0.00	0	25,000	0	25,000	0.00	0	50,000	0	50,000
Total		2.00	\$607,840	\$2,573,437	\$8,523,069	\$11,704,346	2.00	\$607,840	\$3,243,158	\$9,826,019	\$13,677,017

DP 115 - Specialty Clinic Cost Recovery - The legislature accepted the executive request for \$200,000 per year in state

special revenue authority for the Children's Special Health Services (CSHS) specialty clinics to recover costs of services from patients and their insurance. These clinics provide comprehensive, multi-disciplinary care for children with cleft, craniofacial, or metabolic disorders. The funds will be used to support additional services.

DP 3192 - CHIP Enrollment to 10,900 Children Funding - The legislature accepted the executive request for total funds of over \$8 million for the biennium to maintain CHIP enrollment at 10,900 children. State matching funds include an increase of \$0.4 million in I-149 tobacco tax state special revenue, \$0.8 million in tobacco settlement funds, \$1.2 million in general fund and, a \$5.3 million increase in federal funds. This funding mix will pay for health care coverage for 10,900 children and will allow stable monthly enrollment in the program.

The legislature added \$2.2 million general fund, offsetting a like amount of I-149 state special revenue funds that had been included in the executive request. The full amount of general fund included in DP 3192 is less because the executive budget had removed about \$0.5 million in general fund spent in the base budget. The legislature made the change to comply with statute enacted by passage of I-149, which does not allow use of increased tobacco tax revenue to offset state funding appropriated for CHIP during the 2005 biennium. The total state appropriation for CHIP over the 2005 biennium was \$6,585,738. Altogether general fund and tobacco settlement revenue support \$3 million of the 2007 biennium appropriation.

DP 3206 - CHIP Expansion by 3,000 Children - The legislature approved the executive request for \$17 million over the biennium to expand the Children's Health Insurance Program (CHIP) by 3,000 children. Together with the request included in NP 3192, CHIP enrollment will be about 13,900 each year of the 2007 biennium. The appropriation includes \$4 million in state special revenue from the I-149 tobacco tax and \$13 million in CHIP and Medicaid federal matching funds. This funding mix will pay for additional CHIP and associated Medicaid coverage for 3,000 children, because during CHIP outreach children who are eligible for Medicaid are also discovered.

DP 3703 - Children's Special Health Care Clinic - The legislature accepted the executive proposal to use Health and Medicaid Initiative Funds (I-149) to fund additional clinics for children with special health needs. The legislature delayed implementation of the expansion from July 1, 2005 to January 1, 2006.

Children's Mental Health Services Legislative Budget

The following table summarizes the legislative budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	5.00	0.00	12.00	17.00	0.00	12.00	17.00	17.00
Personal Services	150,848	113,432	514,755	779,035	113,256	513,356	777,460	1,556,495
Operating Expenses	989,419	(65)	404,274	1,393,628	(62)	448,130	1,437,487	2,831,115
Grants	0	0	597,918	597,918	0	1,304,061	1,304,061	1,901,979
Benefits & Claims	60,837,251	3,697,633	2,112,368	66,647,252	4,313,408	(682,888)	64,467,771	131,115,023
Total Costs	\$61,977,518	\$3,811,000	\$3,629,315	\$69,417,833	\$4,426,602	\$1,582,659	\$67,986,779	\$137,404,612
General Fund	12,769,756	1,139,721	(55,958)	13,853,519	1,347,169	(54,354)	14,062,571	27,916,090
State/Other Special	233,552	0	875,000	1,108,552	0	50,000	283,552	1,392,104
Federal Special	48,974,210	2,671,279	2,810,273	54,455,762	3,079,433	1,587,013	53,640,656	108,096,418
Total Funds	\$61,977,518	\$3,811,000	\$3,629,315	\$69,417,833	\$4,426,602	\$1,582,659	\$67,986,779	\$137,404,612

Children's Mental Health Services

The children's mental health function administers Medicaid mental health services for children as well as providing primary DPHHS staff support in the development of a system of care for children. The 2007 biennium appropriation grows about \$14 million total funds (\$2 million general fund) over the FY 2004 base budget expenditures. The primary components of the net increase are:

- o Medicaid caseload changes that add \$8 million total funds (\$2 million general fund)
- o Federal grant funds for 7.00 new FTE and \$6 million to implement a system of care for children
- o Funding for 5.00 new FTE with a net reduction of \$1 million total funds and about \$0.1 million general fund due to anticipated savings in mental health services costs
- o Funding for a provider rate increase of \$3 million total funds, including \$0.9 million tobacco tax revenue from I-149

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					124,445					124,262
Vacancy Savings					(11,013)					(11,006)
Inflation/Deflation					(65)					(62)
Total Statewide Present Law Adjustments					\$113,367					\$113,194
DP 17 - Medicaid Caseload - Children's Mental Health	0.00	1,083,037	0	2,614,596	3,697,633	0.00	1,290,572	0	3,022,836	4,313,408
Total Other Present Law Adjustments	0.00	\$1,083,037	\$0	\$2,614,596	\$3,697,633	0.00	\$1,290,572	\$0	\$3,022,836	\$4,313,408
Grand Total All Present Law Adjustments					\$3,811,000					\$4,426,602

DP 17 - Medicaid Caseload - Children's Mental Health - The legislature accepted the executive request to add close to \$8 million in all funds, including nearly \$2.4 million in general fund and \$5.6 million in federal funds, over the biennium for Medicaid caseload growth in the Children's Mental Health program. The increase is about 2 percent per year, which is much lower than Medicaid cost increases over the last four years. Service reductions and other cost saving measures

implemented during the 2003 biennium appear to have slowed cost growth.

New Proposals

New Proposals Sub Program	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 42 - Enhance Efficiency of Children's Mental Health Services										
03	5.00	(55,958)	0	(418,384)	(474,342)	5.00	(54,354)	0	(395,714)	(450,068)
DP 146 - Develop System of Care for Children										
03	7.00	0	0	1,116,289	1,116,289	7.00	0	0	1,865,615	1,865,615
DP 3606 - Children's Mental Health Provider Rate Increase										
03	0.00	0	875,000	2,112,368	2,987,368	0.00	0	0	0	0
DP 3702 - Flexible Funds for SED Waiver										
03	0.00	0	0	0	0	0.00	0	50,000	117,112	167,112
Total	12.00	(\$55,958)	\$875,000	\$2,810,273	\$3,629,315	12.00	(\$54,354)	\$50,000	\$1,587,013	\$1,582,659

DP 42 - Enhance Efficiency of Children's Mental Health Services - The legislature accepted the executive proposal to fund 5.00 new FTE for children's mental health services and to reduce service costs as a result of work done by the new employees. The duties of the new FTE will be to monitor contracted services, and to identify and resolve problems. HRD anticipates the new FTE will enhance efficiency of services to severely emotionally disturbed (SED) youth and families through coordination and development of Kids Management Authorities (KMAs), improve treatment coordination planning among multiple agencies, and facilitate problem resolution at the local level.

The appropriation includes increases in administrative costs totaling \$800,000, over the biennium, which are more than offset by anticipated savings of about \$920,000. The total cost change nets to reductions of \$110,312 general fund and \$924,410 federal funds over the 2007 biennium.

DP 146 - Develop System of Care for Children - The legislature approved the executive request for \$3 million federal funds over the biennium, including funds for 7.00 new FTE to further the development of the children's system of care. The funds are available through a grant from the Substance Abuse and Mental Health Services Administration (SAMSHA). This grant is intended to assist Montana in the development of a system of care for children with a serious emotional disturbance (SED), and to implement and expand local Kids Management Authorities. The grant requires a 25 percent match (either state or in kind).

Several of the entities that are collaborating with the division in the development of the system of care are contributing matching funds, including \$250,000 of in-kind match from the Crow Tribe. The division will reduce a contract for pre-authorization and utilization reviews of children's mental health services to provide \$50,000 in general fund match for the grant.

Four of the FTE will be located in Helena, while the remaining three will be field staff located at local project sights. These staff will carry out the terms of the federal contract/grant, which include administration of the grant, data collection, analysis and reporting, training coordination, social marketing and communication efforts, development of parent advocacy organizations, and improvement of the children's mental health service delivery system for SED youth.

The legislature expressed its concern of the potential ongoing and increasing state cost associated with administering the processes implemented through the federal grant. Legislative and division staff will review the costs of continuing the system of care with the 2007 Legislature.

DP 3606 - Children's Mental Health Provider Rate Increase - The legislature added \$1 million in tobacco tax revenue funded from I-149 for provider rate increases for children's mental health services. Federal Medicaid matching funds of \$2 million were also approved.

The legislature added language that the funds must be used for direct care worker wage increases and that wages must be raised by 75 cents an hour and in addition benefit reimbursement must be raised by 26 cents per hour. If funds in this

decision package are insufficient to raise wages by the amount intended, the department may also apply funds from the rate increase included in DP 3700, which includes funds for a 6 percent rate increase in FY 2006.

The Governor vetoed language in HB 2 requiring that the department provide documentation regarding implementation of this appropriation and that the wage increases must be implemented by October 1, 2005. A lawsuit has been filed regarding the Governor's ability to veto language in HB 2 without also removing the appropriation.

DP 3702 - Flexible Funds for SED Waiver - The legislature accepted the executive proposal to appropriate \$50,000 of state special revenue from the Health and Medicaid Initiatives Account created by the passage of I-149 and \$117,122 in federal Medicaid matching funds to create funding for innovative services for children with a serious emotional disturbance (SED). This funding will help fund services that can support SED children in their families and communities to provide better outcomes for children. The proposal is one component of the development of the children's system of care.

Low Income Prescription Drug Assistance Program Legislative Budget

The following table summarizes the legislative budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	0.00	0.00	9.00	9.00	0.00	9.00	9.00	9.00
Personal Services	0	0	466,441	466,441	0	465,062	465,062	931,503
Operating Expenses	0	0	8,261,559	8,261,559	0	10,727,178	10,727,178	18,988,737
Total Costs	\$0	\$0	\$8,728,000	\$8,728,000	\$0	\$11,192,240	\$11,192,240	\$19,920,240
State/Other Special	0	0	8,728,000	8,728,000	0	11,192,240	11,192,240	19,920,240
Total Funds	\$0	\$0	\$8,728,000	\$8,728,000	\$0	\$11,192,240	\$11,192,240	\$19,920,240

Low Income Prescription Drug Assistance Program

The legislature passed SB 324 to enact a prescription drug assistance program for low-income Montanans as authorized in a voter initiative passed in the November 2004 election (I-149). There are no present law adjustments for this function because it is a new program.

Administrative costs, including funding for 9.00 FTE to administer the program, are funded from anticipated rebates from drug manufacturers participating in the program. Start up costs are funded from \$1 million in I-149 tobacco tax state special revenue.

A more detailed description of the program is included in the agency overview.

New Proposals

Sub Program	FTE	Fiscal 2006				Fiscal 2007				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3202 - Prescription Drug Program -- SB 324 (Restricted)										
05	0.00	0	6,000,000	0	6,000,000	0.00	0	8,750,000	0	8,750,000
DP 3207 - Startup Funds for Prescription Drug Program (Biennial/Restricted)										
05	0.00	0	1,000,000	0	1,000,000	0.00	0	0	0	0
DP 3324 - Implement SB 324 - Staff and Operating Costs										
05	9.00	0	1,728,000	0	1,728,000	9.00	0	2,442,240	0	2,442,240
Total	9.00	\$0	\$8,728,000	\$0	\$8,728,000	9.00	\$0	\$11,192,240	\$0	\$11,192,240

DP 3202 - Prescription Drug Program -- SB 324 (Restricted) - The legislature approved \$14.75 million tobacco tax state special revenue over the biennium for a prescription drug program, as well as other programs and provider rate increases, referred to in 53-6-1201, MCA (enacted through Initiative 149), and funded through increased tobacco taxes. Total appropriations from I-149 are discussed in greater detail in the agency narrative, including the prescription drug program.

DP 3207 - Startup Funds for Prescription Drug Program (Biennial/Restricted) - This decision package includes \$1 million in state special I-149 tobacco revenue to fund start up of the prescription drug program embodied in SB 324. The start up appropriation is exempt from the HB 2 restriction that funds from the health and Medicaid initiatives account cannot be spent until December 1, 2005, or until the account reaches a balance of \$25 million.

DP 3324 - Implement SB 324 - Staff and Operating Costs - The legislature added \$4.2 million in state special revenue from pharmacy rebates for the prescription drug program initiated in SB 324. The funds support 9.00 new FTE and operating costs to administer the program, which is discussed in more detail in the agency overview.

Health Insurance Premium Assistance Legislative Budget

The following table summarizes the legislative budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	0.00	0.00	1.00	1.00	0.00	1.00	1.00	1.00
Personal Services	0	0	40,195	40,195	0	40,079	40,079	80,274
Operating Expenses	0	0	(14,535)	(14,535)	0	3,409	3,409	(11,126)
Benefits & Claims	0	0	0	0	0	2,328,193	2,328,193	2,328,193
Total Costs	\$0	\$0	\$25,660	\$25,660	\$0	\$2,371,681	\$2,371,681	\$2,397,341
State/Other Special	0	0	12,830	12,830	0	21,744	21,744	34,574
Federal Special	0	0	12,830	12,830	0	2,349,937	2,349,937	2,362,767
Total Funds	\$0	\$0	\$25,660	\$25,660	\$0	\$2,371,681	\$2,371,681	\$2,397,341

Health Insurance Premium Assistance

The legislature passed HB 667 creating a tax credit and health insurance premium assistance program for small employers as allowed by I-149, a voter initiative that passed in the November 2004 election. There are no present law adjustments since the program is newly created.

The State Auditor administers the program, which is discussed in more detail in the DPHHS overview. The legislature added tobacco tax state special revenue appropriated funds to support 1.00 FTE to administer a Medicaid waiver to help support health insurance premiums for low-income workers of small employers. Federal matching funds of about \$2.3 million were appropriated in FY 2007 on the assumption that the Medicaid waiver would be approved. The State Auditor is to transfer up to \$1 million in tobacco tax state special revenue to DPHHS for the state match for Medicaid service costs.

New Proposals

Sub Program	FTE	-----Fiscal 2006-----				-----Fiscal 2007-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3667 - HRD -- Implement Provisions of HB 667 06	1.00	0	12,830	12,830	25,660	1.00	0	21,744	2,349,937	2,371,681
Total	1.00	\$0	\$12,830	\$12,830	\$25,660	1.00	\$0	\$21,744	\$2,349,937	\$2,371,681

DP 3667 - HRD -- Implement Provisions of HB 667 - The legislature added \$34,574 state special revenue and \$2,352,767 in federal authority to implement the provisions of HB 667. The funds support 1.00 FTE to design and manage an 1115 Medicaid waiver to allow I-149 tobacco state special revenue for state match to help fund premium assistance for small business employees, whose incomes are below 200 percent of the federal poverty level. The federal funds approved in FY 2007 include \$2.3 million in federal Medicaid matching funds in anticipation of approval of the Medicaid waiver. Language was included in HB 2 directing the State Auditor's Office to transfer about \$1 million of I-149 state special tobacco revenue to pay the state match for the waiver.