

# RELIANCE ON FEDERAL FUNDS: ISSUES/IMPACTS

A Report Prepared for the  
**Legislative Finance Committee**

By  
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## PURPOSE

The purpose of this report is to continue work on the HJR 26 study passed by the 2005 Legislature and approved by the Legislative Finance Committee. The resolution called for a study of the following:

- History and trends of state reliance on federal funds
- History, trends, and portents of federal budget deficits
- Options for dealing with budget deficits caused by federal cutbacks

This report is the second of three. The first report, presented at the December meeting, provided information on:

- History and trends in the spending of federal funds in Montana and the changing uses thereof
- History, trends, and projections (Congressional Budget Office) of federal budget deficits

This report focuses on recent and future trends in federal spending in Montana, and what it may mean for budget development in the 2007 Legislative Session. It does this through first identifying the following:

- The largest uses of federal funds
- The areas with the greatest risk to the state if federal funds change (“theoretical” risk)
- The areas with the greatest risk of change due to action already taken or proposed (“practical” risk)

Further work will be done, primarily in conjunction with the budget analysis, of particular impacts on Montana operations as they become clearer. In addition, an offshoot of this effort is the creation of a database of the largest federal funds utilized through state government, which is discussed later in the report. Standardized reports on the largest federal funds utilized in Montana will be created from this database and made available for use by legislature and other interested parties.

## FEDERAL BUDGET ACTION

By way of a brief recap, there are two ways changes in funding available to states are directly made:

- 1) Through a reconciliation bill. Reconciliation bills are those that make changes in mandatory (entitlement) programs through changes in the underlying laws that govern expenditures. For example, to change the amount expended for Medicaid, the underlying structure is adjusted, as “appropriations” are not specifically established by Congress, but are instead based upon estimates of total expenditures under current law and conditions. Most of the discussion and press has been about the reconciliation bill passed by Congress<sup>1</sup>, which reduced expenditures by about \$40 billion over 5 years.
- 2) Directly in the appropriations bills, or funding for “discretionary” spending. Most grants are funded through direct appropriations contained in appropriations bills (such as HB 2 on the state level). Therefore, Congress can directly impact the amount of funds available simply by changing the appropriations. These changes are often rather hidden, because no law changes are required. In addition, it is often difficult to gauge the impact on individual grants and/or programs of changes because many appropriations are summarized and actual individual changes not apparent until the appropriation is actually allocated.

As indicated in the December report, there are a number of other ways that federal action directly impacts costs to states, however. A partial list includes:

- Changes in program, match, or maintenance of effort requirements
- Failure to fully account for caseload, utilization, or inflationary adjustments
- Imposition of other unfunded mandates

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<sup>1</sup> The bill is the subject of a lawsuit filed recently by several members of Congress, as President Bush signed the House version of the bill, which had a technical difference from the Senate version. The lawsuit alleges that the bill as signed violates the Constitution because the two versions are not identical as required. As of this writing the issue of whether the bill consequently required another vote was unresolved.

# RELIANCE AND RISK

The first step in applying impacts to Montana of federal action is to address both the state's reliance on federal funds, and the risk that reliance entails.

## RELIANCE

Montana receives literally hundreds of federal grants. The federal funds range from maintenance of large, on-going programs to transitory, one-time grants for very specific purposes. As a brief recap of information provided in the last report, the following shows the areas of state government for which the most federal funds are spent. The program areas that dominate the expenditures of the federal government are human services, K-12 and higher education, and transportation, as shown in the following figures.

Figure 1 shows expenditures over time for these three areas and all other state government.

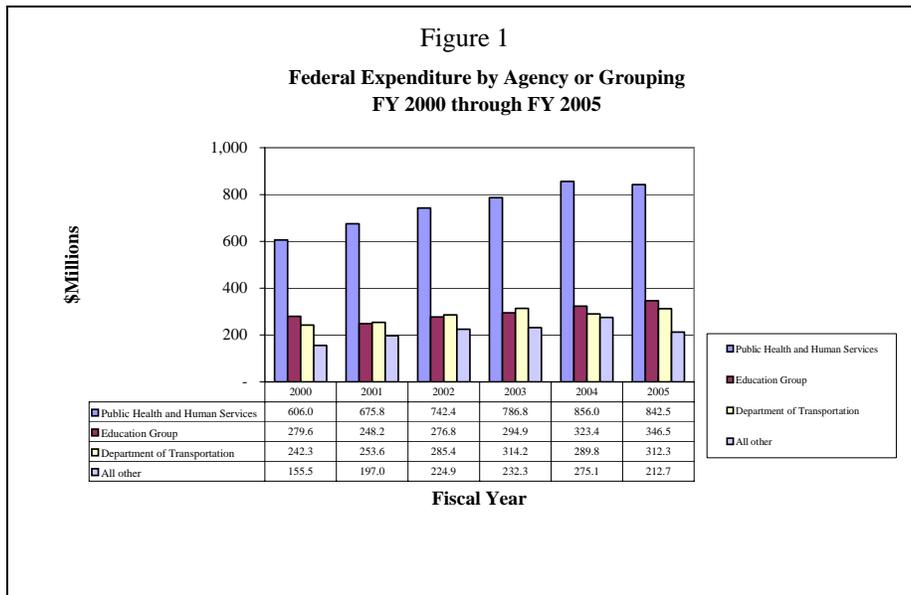
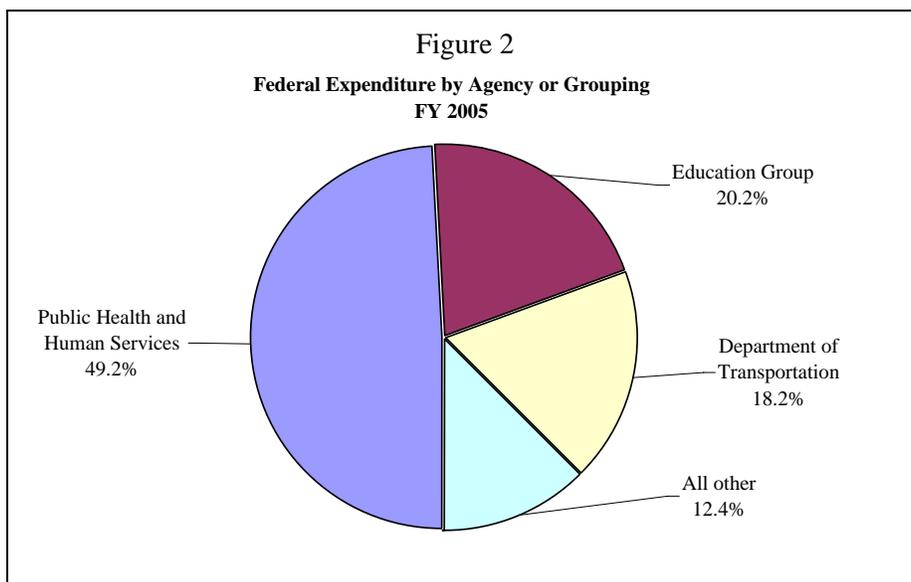


Figure 2 shows how much of the total federal funds go to which area of government for FY 2005.



# RISK

Risk was divided into two kinds: theoretical risk and practical risk.

## Theoretical Risk

Theoretical risk is defined as the potential for either major disruption of services that impact a large number of Montanans, and/or significant pressure on the legislature to replace any lost federal funds to maintain services, regardless of what is actually happening at the federal level with funding. The following criteria was used for determining theoretical risk<sup>2</sup>:

- Large amount of funds received each year
- The actual discretion Montana has on whether to provide a service/expend funds
- Federal requirements for continued receipt of all or a portion of the funds

## *Amount of Funds*

For purposes of this report and to maintain the number of grants at a manageable level, a minimum of \$1.0 million per year received was used as the floor level. Minor exceptions were made for grants that were just under \$1.0 million but were a critical part of the operation of the agency, particularly the Montana Arts Council and the Montana Historical Society. Certain grants were combined with larger grants if they served the same purpose. Some grants of over \$1.0 million were not included in order to limit the number of grants discussed in certain program areas. This criterion defines the entire database, in that each grant meets this threshold.

## *Discretion*

The federal government makes funds available to states for a variety of purposes deemed in the interest of that government. The actual risk to the state depends upon how discretionary Montana's expenditure of the funds is. There are essentially three levels of discretion:

- Those functions required by either federal or state law – if a function must be performed, there is a greater risk to the state of having to add state funds to replace any lost federal funds. Among the functions required by either federal, state, or both include: the national guard, special education, unemployment insurance, and child support enforcement. Medicaid is also included in this category, although the level of expenditure and the parameters of the program do not necessarily translate to current parameters.
- Those for services deemed of sufficient importance that, though not required, either the state has expended resources in the past or otherwise indicated the functions are a priority. Food stamps and TANF are examples of this type.
- Those that are optional in that the state provides the service or function if federal funds are available but would not necessarily expend resources if they were not. For this category, even if the funds were at risk, the overall risk to the state was not deemed to be high. Among these grants are talent search, GEAR-UP, and fish and wildlife restoration.

## *Federal Requirements for Continued Receipt*

Federal funds often come with requirements the state (or other entities) must meet to continue receiving all or a portion of the funds. The most common requirements are:

- Matching funds, whereby the state or other entity must spend a certain percentage of the total from state (or other governmental) resources
- Maintenance or effort (MOE), whereby the state or other entity must maintain non-federal expenditures at a certain defined level
- Performance, in which the state or other entity must maintain a minimum level of performance using defined criteria

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<sup>2</sup> Other criteria might be used by others looking at this data to determine higher theoretical use, such as who the primary beneficiaries of the service are and the general purpose, the importance of the federal funds in the operation of the function funded, or other factors.

In each instance, if the federal government changes those requirements, or fails to maintain its share, the costs to the state increase to continue to provide the same level of service.

## Results

Figure 3 shows the 85 federal funds used in this study and the theoretical size and requirement risk factors to the state.

State Function	Fed Match	Expenditures
Federal Medicaid Benefits Matching Funds	Match	\$473,219,640
Transportation Infrastructure and Operations	Match/MOE	277,065,468
Food Stamp Benefits	Performance	87,673,095
Title I Grants to Local Education Agencies	None	32,242,367
Special Education - Grants to States	None	31,738,554
TANF Benefits	MOE/Perf	23,965,939
Disaster & Emergency Services	None	20,585,628
Military Capital Construction	Match	18,796,027
Employment Training	None	17,793,622
National School Lunch Program	Match	16,385,943
Fish and Wildlife Restoration	Match	16,118,457
Women, Infants, and Children	None	14,212,955
Discretionary Child Care	Performance	13,857,642
Low-Income Energy Assistance Program	Performance	12,962,906
Children's Health Insurance Federal Matching Funds	Match	12,448,313
Forest Reserve Shared Revenue	None	12,431,155
UI Administrative Grants	None	12,033,749
National Guard	None	11,732,110
Chronic and Communicable Diseases	Match/MOE	11,492,505
Improving Teacher Quality Grants	None	11,397,232
Vocational Rehabilitation	Match/Moe/Perf	10,052,321
Economic Development	None	9,264,816
Child Nutrition	Performance	8,843,086
Guaranteed Student Loan	None	8,688,741
Foster Care	Match/Perf	8,017,017
Child Care Matching/Mandatory/MOE	Match/MOE/Perf	7,286,556
ADAD - Block Grant 100%	None	7,251,415
Housing	None	6,830,156
Child Support Enforcement	Match/Perf	6,308,132
EPA Performance Partnership Grant	Match/Perf	5,202,122
Disability Determination Adm 100	Performance	4,685,213
Social Services Block Grant	Performance	4,236,481
Fish and Wildlife Project Assistance	Match	4,169,964
School Breakfast Program	None	4,112,660
Twenty-first Century Community Learning Centers	None	4,094,700
Abandoned Mine Lands	Performance	3,871,665

Figure 3  
Grants with Theoretical Risk  
FY 2005  
(Continued)

Federal Grants for Elderly Feeding Programs	Match/Perf	3,497,005
Vocational Education - Basic Grants to States	Match	3,403,589
Veterans' Homes Federal Reimbursement	Performance	3,295,588
Community Services Block Grant	Performance	3,227,093
Non Point Source	Match/MOE/Perf	3,130,140
Reading First State Grants	None	3,088,627
Grants for State Assessments and Related Activities	None	3,055,080
Protection of Forest Resources	Match/Perf	2,796,424
Education Technology State Grants	None	2,782,844
Bioterrorism/Hospital Preparedness	None	2,723,468
Weatherization Benefit Assistance	Performance	2,542,707
Elections Federal Grant	Match/MOE	2,365,353
Cooperative Fire Protection Grant	Match/MOE/Perf	2,361,440
Gear-Up Grant (Early Intervention and Scholarships)	Match	2,340,704
Federal Transit Assistance Grants	Match	2,267,831
Maternal & Child Health	None	2,256,307
Drug Enforcement Assistance	Match	2,245,043
Family Planning Title X	None	2,193,985
Early Intervention (IDEA - Part C)	Performance	1,897,769
Federal Grants for Aging Services	Match/MOE	1,742,499
Board of Crime Control Grants To Justice	None	1,733,627
Grants to Correctional System Programs	None	1,728,780
Food Commodity Distribution	Match	1,619,703
Crime Victim Assistance	None	1,507,508
State Grants for Innovative Programs	None	1,457,412
Safe and Drug-free Schools and Communities State Grants	None	1,425,567
Grants to Court System Programs	None	1,409,438
Law Enforcement Related Grants	Match	1,356,283
State Wildlife Grants	Match	1,356,148
Family Preservation	Match/Perf	1,243,418
Special Education - Preschool Grants	None	1,240,679
Federal Grant for Mental Health Services and Services to Mentally Ill Homeless	Match/MOE	1,240,414
Aids	None	1,205,165
Drinking Water Infrastructure Funds	Match	1,168,360
Federal Reclamation Grant	Match/Perf	1,018,253
Migrant Education - State Grant Program	None	968,496
Even Start	Match	965,413
Superfund/Multi-Site	Match/Perf	909,046
Comprehensive School Reform Demonstration	None	902,548
Ryan White/Aids	None	850,537
National Endowment for the Arts	Match	644,127
Talent Search Education Outreach and Mentoring	Performance	638,216
Historic Sites Preservation	Match	608,768
Diabetes Control	Match	518,415
Tech-Prep Education Grants	None	491,554
Libby Asbestos	None	470,234
Wastewater Infrastructure Funds	Match/MOE	368,214
Homeland Security	None	359,392
Student Financial Aid	MOE	225,773
Expenditure Total		<u>\$1,313,913,334</u>

## **Practical Risk**

The second type of risk, which is used in conjunction with theoretical risk, is practical risk, or the risk that actual changes will be made to federal funds with high theoretical risk that impact Montana. Funds with high theoretical risk may have little or no practical risk if no changes are being contemplated on the federal level. However, only those funds with theoretical as well as practical risk are examined here. Therefore, there will be federal funds either reduced or under contemplation for reduction that will impact certain operations that are not discussed here because they did not meet the initial theoretical risk criteria.

A change in practical risk can take any number of forms:

- A reduction in the amount of funds received
- Failure of the allocation to keep pace with either inflation and/or changes in program utilization (i.e. caseloads)
- Changes in the federal requirements on states for continued receipt of all or a portion of the funds (match rate, maintenance of effort, and/or performance standards)
- Imposition of other new requirements or programs without provision of funds (unfunded mandates)

As stated in the first report, there can be other federal actions of a less direct nature that can impact states, including:

- Less tolerance of policies that benefit states but that have dubious value to the federal government, such as maintaining TANF grants at levels previously utilized for much higher caseloads
- National priorities that result in changes in other priorities or that directly impact states
  - Higher gas prices have Congress at least theoretically contemplating a suspension of the federal gas tax, which could impact how much Montana gets in federal transportation funding and for how long
  - The war in Iraq has not only stretched resources but increased the pressure to cut budgets elsewhere
- Congressional/Presidential tardiness in getting its work done that can mean states must “float” expenditures until the federal government catches up and/or with uncertainty as to whether current expenditures can be supported if the federal funding level is unknown or whether operations must change to meet federal requirements
- Other priorities that take a greater precedence, including provision of Federal Emergency Management Agency (FEMA) funds to various disaster areas that then impact the speed with which Montana gets its reimbursement for fire costs
- Power and election year politics, including the perceived need to provide earmarks for incumbent members of Congress
- The perception that states are doing well financially

In gauging the presence of practical risk, the following was taken into consideration, in order of magnitude of risk:

- Congress has already taken action
- Congress is contemplating action
- The President has proposed changes in his latest budget

## ***Results***

At this stage, the outlook at the federal level is still fairly uncertain, as Congress is still struggling to pass resolutions on budget levels (as of May 25), and major changes can occur between now and the end of the budget cycle. However, the following is the situation as of this writing. The actual impact for Montana can generally be extrapolated from the overall action. The 2007 Legislature will face the consequences of both the 2006 and 2007 budget actions on the federal level. In many instances, agencies have been dealing with changes in either the amount or timely availability of federal funds to maintain programs in the period since the 2005 Legislative Session.

A number of professional observers have stated that the primary aim of the decisions on spending do not have as their main goal deficit reduction per se, but a reduction in federal domestic spending. Therefore, in the current political climate the issue for states on federal action is that the level of deficits is less important than the

perceived growth in federal spending. For example, if the deficit was non-existent but expenditures were rising by what is perceived to be an unacceptable level, the budget pressure would still be downward or static. Consequently, domestic discretionary and to a lesser extent mandatory spending are bearing the brunt of both the President's and Congressional leadership proposals and actions.

#### "Discretionary" Programs

As stated earlier, discretionary funding is that for which the determiners of total funding are the amount Congress appropriates each year. Among the major types of programs included in this category are:

- Public health (non-benefit) programs such as bio-terrorism, health factors (smoking, obesity, etc.), and block grants
- Education, including all grants to school districts such as Title I and special education, including all funds available as part of No Child Left Behind
- Natural resources, including remediation, air and drinking water, and wildlife management
- Various military expenditures such as facilities maintenance and disaster preparedness

The 2006 federal budget kept growth in overall domestic discretionary spending below the level necessary to absorb inflationary increases, with a cut in non-security spending. In 2007 and continuing a theme from the previous year, the President is proposing some programs for elimination, but is primarily proposing a budget that once again does not address inflation or other increases. In fact, the President's budget has a growth rate less than inflation but, more telling, non-security related domestic discretionary spending is actually cut. As of this writing, Congressional leadership has proposed budget resolutions that generally mirror the President's proposed level. Also, Congress has shown itself willing to impose non-targeted, across-the-board reductions in the past. The actual allocation by agency and program will not be made until later in the year, when the appropriations committees begin their work in earnest. However, as you have probably been reading there is major dissension in the Republican ranks as of this writing whether to put more funds into health and labor.

There are two primary intangibles given that this is a budget year: discipline in keeping to the budget resolutions and earmarking. With so many incumbents feeling vulnerable this year, the issue may be whether the need for a perception of fiscal discipline trumps other considerations.

#### "Mandatory" Programs

As stated, mandatory programs are those for which the determiners of total funding are the provisions in statute, not whether federal law mandates the existence of a program. The largest programs in this category that flow through the state are Medicaid and food stamps.<sup>3</sup>

As you are aware, the changes adopted for mandatory programs in the Deficit Reduction Act of 2005<sup>4</sup> totaled about \$40 billion over the next 5 years, and have the potential for significant impacts on Montana (for a further discussion, see two reports by Lois Steinbeck, Marilyn Daumiller, and Kris Wilkinson for the March and June LFC meetings - attached). For the coming year, the President is proposing about \$65 billion in reductions over the next 5 years. However, various Congressional watchers have cast doubt that the Congress will adopt any but a fraction of this total. The President's proposals that could impact Montana are primarily in Medicaid, the commodity program, and food stamps.

#### Summary of Practical Risk

The following figures show those areas where the state has a degree of practical risk. Please note that the expenditures shown are not the potential for loss to the state, but merely the amount received in FY 2005. Further analysis of the potential impact on the budget will be undertaken as the budget analysis progresses. Please note also that there may be many more federal grants that are of high importance to the continuance of programs important to both individual legislators and the state as a whole that are not included in this discussion because of their small relative size and the need to focus the efforts of this study.

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<sup>3</sup> Social security and Medicare do not go through the state budget.

<sup>4</sup> As of this writing, still under a legal challenge.

The following figure shows grants where current funds are:

- Decreasing
- At risk due to discussions currently underway
- Proposed for elimination in the President's budget.

**Figure 4**  
Federal Funds with Decreasing or At Risk Funding  
FY 2005 Expenditures

OPO Category	StateFunctionName	FY 2005
Consumer/Citizen Protection	Disaster & Emergency Services	\$20,585,628
<b>Consumer/Citizen Protection Total</b>		<b>20,585,628</b>
Development of Full Educational Potential of State's Citizen	Comprehensive School Reform Demonstration	902,548
	Education Technology State Grants	2,782,844
	Even Start	965,413
	Guaranteed Student Loan	8,688,741
	Safe and Drug-free Schools and Communities State Grants	1,425,567
	Special Education - Preschool Grants	1,240,679
	State Grants for Innovative Programs	1,457,412
	Student Financial Aid	225,773
	Tech-Prep Education Grants	491,554
	Title I Grants to Local Education Agencies	32,242,367
Vocational Education - Basic Grants to States	3,403,589	
<b>Development of Full Educational Potential of State's Citizen Total</b>		<b>\$53,826,487</b>
Enhancement and Promotion of the Public Health	Federal Grants for Aging Services	1,742,499
	Federal Grants for Elderly Feeding Programs	3,497,005
<b>Enhancement and Promotion of the Public Health Total</b>		<b>\$5,239,504</b>
Infrastructure - Governmental and Physical	Elections Federal Grant	2,365,353
<b>Infrastructure - Governmental and Physical Total</b>		<b>\$2,365,353</b>
Protection, Enhancement, Remediation of Natural Resources	Abandoned Mine Lands	3,871,665
	Cooperative Fire Protection Grant	2,361,440
	Drinking Water Infrastructure Funds	1,168,360
	EPA Performance Partnership Grant	5,202,122
	Federal Reclamation Grant	1,018,253
	Fish and Wildlife Project Assistance	4,169,964
	Non Point Source	3,130,140
	State Wildlife Grants	1,356,148
	Superfund/Multi-Site	909,046
	Wastewater Infrastructure Funds	368,214
<b>Protection, Enhancement, Remediation of Natural Resources Total</b>		<b>\$23,555,353</b>
Provision of Justice and Protection of Life and Property	Board of Crime Control Grants To Justice	1,733,627
	Grants to Correctional System Programs	1,728,780
	Grants to Court System Programs	1,409,438
	Homeland Security	359,392
<b>Provision of Justice and Protection of Life and Property Total</b>		<b>\$5,231,237</b>
Reduction of Incidence and Impacts of Poverty/Disability	ADAD - Blk Grt 100%	7,251,415
	Children's Health Insurance Federal Matching Funds	12,448,313
	Community Services Block Grant	3,227,093
	Discretionary Child Care	13,857,642
	Early Intervention (IDEA - Part C)	1,897,769
	Federal Grant for Mental Health Services and Services to Mentally Ill Homeless	1,240,414
	Foster Care	8,017,017
	Social Services Block Grant	4,236,481
TANF Benefits	23,965,939	
<b>Reduction of Incidence and Impacts of Poverty/Disability Total</b>		<b>\$76,142,083</b>
Workforce Support	Employment Training	17,793,622
<b>Workforce Support Total</b>		<b>\$17,793,622</b>
<b>Grand Total</b>		<b>\$204,739,266</b>

The following figure shows those grants that are not keeping up with inflation. Many of these grants overlap with grants in the previous table.

**Figure 5**  
Federal Funds Not Keeping Up With Inflation  
FY 2005 Expenditure Levels

OPOCategory	StateFunctionName	FY 2005
Consumer/Citizen Protection	Disaster & Emergency Services	\$20,585,628
<b>Consumer/Citizen Protection Total</b>		<b>20,585,628</b>
Development of Full Educational Potential of State's Citizen	Comprehensive School Reform Demonstration	902,548
	Education Technology State Grants	2,782,844
	Guaranteed Student Loan	8,688,741
	Migrant Education - State Grant Program	968,496
	National School Lunch Program	16,385,943
	Safe and Drug-free Schools and Communities State Grants	1,425,567
	School Breakfast Program	4,112,660
	Special Education - Grants to States	31,738,554
	Special Education - Preschool Grants	1,240,679
	State Grants for Innovative Programs	1,457,412
	Title I Grants to Local Education Agencies	32,242,367
<b>Development of Full Educational Potential of State's Citizen Total</b>		<b>101,945,810</b>
Economic/Business Development	Housing	6,830,156
<b>Economic/Business Development Total</b>		<b>6,830,156</b>
Enhancement and Promotion of the Public Health	Aids	1,205,165
	Diabetes Control	518,415
	Family Planning Title X	2,193,985
	Federal Grants for Aging Services	1,742,499
	Federal Grants for Elderly Feeding Programs	3,497,005
	Maternal & Child Health	2,256,307
	Ryan White/Aids	850,537
<b>Enhancement and Promotion of the Public Health Total</b>		<b>12,263,912</b>
Infrastructure - Governmental and Physical	Forest Reserve Shared Revenue	12,431,155
<b>Infrastructure - Governmental and Physical Total</b>		<b>12,431,155</b>
Preservation/Enhancement of Recreational/Cultural Resources	Historic Sites Preservation	608,768
	National Endowment for the Arts	644,127
<b>Preservation/Enhancement of Recreational/Cultural Resources Total</b>		<b>1,252,895</b>
Protection, Enhancement, Remediation of Natural Resources	Abandoned Mine Lands	3,871,665
	Cooperative Fire Protection Grant	2,361,440
	Drinking Water Infrastructure Funds	1,168,360
	EPA Performance Partnership Grant	5,202,122
	Federal Reclamation Grant	1,018,253
	Non Point Source	3,130,140
	Protection of Forest Resources	2,796,424
	Superfund/Multi-Site	909,046
	Wastewater Infrastructure Funds	368,214
<b>Protection, Enhancement, Remediation of Natural Resources Total</b>		<b>20,825,665</b>
Provision of Justice and Protection of Life and Property	Board of Crime Control Grants To Justice	1,733,627
	Child Support Enforcement	6,308,132
	Crime Victim Assistance	1,507,508
	Grants to Correctional System Programs	1,728,780
	Grants to Court System Programs	1,409,438
	Homeland Security	359,392
<b>Provision of Justice and Protection of Life and Property Total</b>		<b>13,046,877</b>
Reduction of Incidence and Impacts of Poverty/Disability	ADAD - Blk Grt 100%	7,251,415
	Child Care Matching/Mandatory/MOE	7,286,556
	Child Nutrition	8,843,086
	Children's Health Insurance Federal Matching Funds	12,448,313
	Community Services Block Grant	3,227,093
	Discretionary Child Care	13,857,642
	Early Intervention (IDEA - Part C)	1,897,769
	Family Preservation	1,243,418
	Federal Grant for Mental Health Services and Services to Mentally Ill Homeless	1,240,414
	Food Commodity Distribution	1,619,703
	Food Stamp Benefits	87,673,095
	Foster Care	8,017,017
	Low-Income Energy Assistance Program	12,962,906
	Social Services Block Grant	4,236,481
	TANF Benefits	23,965,939
	Veterans' Homes Federal Reimbursement	3,295,588
	Vocational Rehabilitation	10,052,321
	Weatherization Benefit Assistance	2,542,707
	Women, Infants, and Children	14,212,955
<b>Reduction of Incidence and Impacts of Poverty/Disability Total</b>		<b>225,874,418</b>
Workforce Support	Employment Training	17,793,622
<b>Workforce Support Total</b>		<b>17,793,622</b>
<b>Grand Total</b>		<b>\$432,850,138</b>

## Watch Areas

The following briefly discusses areas of concern with current funding.

### *Human Services*

As discussed in other reports (attached), the Deficit Reduction Act of 2005 (DRA) has various known and currently still unknown impacts on human services programs, most notably Medicaid and child support enforcement. The President also proposes a number of changes that impact Medicaid and CHIP in his current budget, and is proposing the elimination of the community services block grant (\$3 million). Medicaid benefits funding for on-going functions is stable and keeping up with caseload, but foster care funding is reduced. Other grants, such as early intervention, AIDS, diabetes control, family planning, aging, mental health, and food commodity distribution are subject to the freezes and decreases in domestic discretionary spending. TANF allocations are not adjusted for inflation through 2010. The social services block grant is once again slated for reduction in the President's budget.

The state appears to be keeping up with hospital preparedness funds (bio-terrorism, etc.) and chronic and communicable disease. Funding for pandemic flu is also increasing, although the federal response report indicates states will have major responsibilities in the event of an outbreak.

### *Transportation*

Funding for transportation construction projects is not part of the current budget discussions, as this funding comes from the highway trust fund and is part of a multi-year program called SAFETEA-LU. However, higher gas prices and an election year mean that a lot of bets are off as to the impact on the highway trust fund, which already has a structural imbalance, due to potential actions to address this issue. Because Montana receives significantly more back from the trust fund than Montanans pay in, any action that impacts the level of the trust fund could have a significant impact in the future, as will any attempts to change the allocation.

### *Education*

K-12 programs are generally subject to the freeze imposed on domestic discretionary programs. Among the programs not keeping up with inflationary increases and/or proposed for elimination are grants that supplement state funding for special education. Other grants, such as Title I, are along with other grants integral to No Child Left Behind, adding to the unfunded liability of that mandate. Comprehensive school reform grants and Even Start will be eliminated (About \$1.8 million total).

Among various other grants, the president would eliminate vocational education state grants, GEAR-UP, and Talent Search, although the President has proposed these reductions before and been rebuffed by Congress. The primary change in higher education funding already adopted potentially impacts the ability of citizens to secure loans at the historically low interest rates students and parents have had access to. The state Guaranteed Student Loan Program is also affected through reductions to its operating budget, which has already had an impact on administrative operations in the student loan program. Also affected are programs that do not directly impact the state higher education budget. In these instances pressure could be increased to provide additional state-based scholarships and/or tuition relief.

### *Environmental Programs*

The primary action impacting these budgets is the impact of the freeze and reductions on discretionary spending, and the less tangible factor of delays and uncertainty in funding levels for a number of grants. Within enforcement programs, reductions in funding are not accompanied with reductions in either federal or state requirements, increasing the pressure on state funds. Fuels for Schools, which has provided funds to allow schools to convert school boilers to biomass, has been eliminated. The federal reclamation grant is reduced by 10 percent, which may delay industry activities as permitting and compliance activities are delayed. Non-point source funding is reduced.

### *Other*

- Shortly before the June LFC meeting, the allocation for homeland security funding was announced, and Montana will recur \$14 million this last year. As of this writing the input of this reduction on operations is not clear. Much of this funding has been used to create infrastructure, and maintenance and completion of that infrastructure and the agency operations behind it are therefore issues that will face the legislature
- Worker training programs are subject to the changes in domestic discretionary spending, and Montana's share will decrease as long as the state's economy is outpacing the nationwide average
- Montana is losing grants to youth correctional system programs (\$1.7 million)
- Funding for the national guard has been keeping pace with inflation

Because so many programs are subject to freezes that do not adequately take into account inflation or caseload increases, the impact of those two factors will likely have the largest impact on most state functions. Because it is a slow dribbling away, and so many of the funds have federal requirements for continued receipt that the legislature has traditionally stuck to, the most likely impact will be on services. However, some things are not going to be obvious, particularly if it is the wish of the Governor to control spending increases – the actual amount that can be done with the federal funds received will be insufficient to maintain the current level, but the actual impact on state services will not be entirely clear during the session.

## **LEGISLATIVE OPTIONS**

Montana is highly dependent upon federal funds. Even small changes on the federal level can have very large consequences for Montana. The question of reducing our dependence on federal funds is more a thought exercise than a practical solution. Taxes in Montana would have to increase exponentially to replace even a portion of federal funds that come into the state for services currently considered priorities. In addition, federal funds cannot be “mixed and matched”. A reduction in spending in one federal area not considered essential cannot be used to replace funds in other areas, as each federal fund is made available for specific purposes and cannot be used for other purposes at the state's discretion.

Part of the challenge for the legislature is not just determining what actions to take if federal funds are not sufficient to maintain functions without additional state funds, but how decisions made and information requested now can reduce the likelihood of unanticipated impact on functions and/or state expenditures in the future.

As stated earlier, the perception is that this President and Congress are more concerned with domestic spending growth than deficit reduction. While the President has proposed a number of programs for elimination and Congress has responded by eliminating some, the amount of money “saved” from program elimination is only a very small portion of reductions made primarily through cuts and/or freezes in various discretionary programs. Therefore, current Congressional action allows us to have some minor predictive abilities for future actions for many of those programs, as long as Congressional leadership does not change. However, most predictions can only be made in very general terms and may have little bearing on individual programs, making timely legislative action difficult.

As for predicting which programs might be eliminated, this poses a more challenging task. The President is using as his guide the federal Program Assessment Rating Tool (PART) as a basis for proposed eliminations. PART is a tool whereby programs are rated on a variety of criteria to determine whether the programs are having the desired results. The President has concentrated his proposals in selected programs that have been ranked either “results not demonstrated” or “inefficient”. However, the President does not propose the elimination of all programs earning that ranking, and Congress has been even more reluctant to eliminate programs, only going along with the President on a portion of his recommendations.

## General Realities of Federal Fund Use in Montana

In examining legislative priorities and why federal funds continue to be a larger part of the state budget, there are three general realities:

- 1) Montana has generally tried to maximize the use of federal funds for functions considered priorities in the state. For example:
  - Montana has taken advantage of the establishment of programs such as Child Health Insurance Program (CHIP) to utilize more federal dollars to provide health coverage, and has taken other actions to utilize as much federal funds as possible while minimizing state funds for a variety of human services functions
  - The state generally attempts to maximize transportation construction funds by providing match necessary to receive the total amount available and expending enough state funds to secure the most advantageous match rate
  - The state accepts a number of grants for a variety of education-related purposes, although the advent of No Child Left Behind, with its corresponding requirements, has changed the complexion of many of these grants
  - Montana utilizes federal funds in some areas, such as environmental enforcement, to implement state regulations if they are similar to federal requirements
- 2) Costs of programs where the federal government provides a portion of the funding rise, due to inflation, caseloads/utilization, or changing federal requirements, with or without additional federal funds to cover those costs.
- 3) Montana has accepted federal funds for federal priorities that the federal government may or may not require the state to undertake.
  - Homeland security
  - Education – Federal requirements for No Child Left Behind may or may not be funded appropriately at the federal level, increasing pressures on states to make up the difference
  - Various wildlife – the state accepts federal funds when they are available for a variety of wildlife enhancement projects, but may not replace the federal funds if they are cut or eliminated because it is not a state priority

As a result, there are three self-evident questions:

- Should Montana continue to attempt to maximize the receipt of federal funds?
- How can Montana recognize and proactively address rising costs that make the state vulnerable if federal funds go down or do not keep up with costs?
- How can the state position itself to reduce adverse impacts when the federal government imposes new programs or requirements?

In addition, federal action does not conform to Montana's legislative schedule, and the legislature will rarely deal with firm, prospective information. Therefore, legislative actions will by definition be either reactive or of a contingent nature.

These and other questions will be addressed in the coming months.

## DATABASE

The primary tool used to compile this report and more information on federal funds is a database compiled by staff. This database contains a variety of information about 85 selected federal funds that meet the criteria discussed earlier. Because the information on the database can be searched and extracted in a very large number of ways, the database will be used as an analysis tool. It will require some maintenance each biennium to keep it current.

An example of the database is included as Appendix D

As an offshoot, there are plans to create standardized reports of each of the federal funds, using information in the database. The reports will be designed for use by a number of persons, including legislators and staff, and other interested citizens.

The reports are currently under construction, but will likely have the following elements for each federal fund.

- 1) What does the state use the funds for?
- 2) What agencies expend the funds?
- 3) Who are the primary beneficiaries (i.e. low-income children)?
- 4) How do the services reach the beneficiaries (i.e. direct payments)?
- 5) Does anyone else derive an economic benefit (i.e. providers of services)?
- 6) What requirements must the state meet to receive the funds?
- 7) What is the outlook for continued receipt of the funds?
- 8) How much has the state received over the last 5 years?

The goal is to have the reports generated in time for the next legislative session.

# APPENDIX A

## THE GENERAL PROCESS OF DETERMINING FEDERAL BUDGETS

The federal process consists of three distinct phases.

- 9) Construction and submittal of the President's budget
- 10) The Congressional budget resolution
- 11) Writing of reconciliation and appropriations bills

### President's Budget

The President submits his or her budget by the first week in February. In addition to recommending changes in appropriations, the President also recommends changes in statute to adjust revenues and/or mandatory spending. As in Montana, Congress can adopt, change, or eliminate any proposals therein.

### Budget Resolution

The primary mechanism used by Congress to control spending is the budget resolution. The budget resolution essentially determines how much revenue will be available and how much each of the 20 budget functions will get of the total budget. Consequently, the resolution also specifies the anticipated deficit or surplus. In addition to articulating how much can be included in each of the 13 appropriations bills, the resolution may anticipate changes in statute to adjust revenues and/or expenditures for mandatory programs. Congress is to reconcile the House and Senate versions by April 15. Because it is a resolution of Congress, it does not require approval by the President.

### Writing of Bills

As stated, any statute changes to adjust revenues or change mandatory spending are included in "reconciliation" bills. Reconciliation bills are examined by the respective Budget Committees (all changes are frequently put in one "omnibus" bill). Appropriations committees are given instructions on the amount of funds available for appropriation to support discretionary programs. Each appropriations bill goes to a separate subcommittee, which can reallocate and reprioritize within the spending targets. Reconciliation bills are to be completed by June 15 and all appropriations bills are to be completed by the start of the federal fiscal year on October 1.

The following figure provides a graphic representation of the timeline. Reconciliation and appropriations bills are rarely done in a timely manner. Congress is as of this writing still working on the omnibus reconciliation bill, and several appropriations bills have yet to pass.

<u>Action</u>	<u>General Timeframe</u>
President submits budget	1 <sup>st</sup> Week in February
Congress completes budget resolutions	April 15
Congress completes reconciliation legislation	June 15
Congress completes action on appropriations	September 30
Fiscal year begins	October 1

# APPENDIX B

## OVERARCHING POLICY OBJECTIVES – CATEGORIES

### 1. Provision of Justice and Protection of Life and Property<sup>5</sup>

Definition: Operation of the means of citizens to seek justice and remediation (all courts); to protect the citizenry from violent/fraudulent/etc. behavior and pursue justice against those who perpetrate such acts; and to operate correctional facilities and programs.

### 2. Reduction of Incidence and Impacts of Poverty/Disability<sup>6</sup>

Definition: Services that enhance the productivity and productive capacity of economically disadvantaged or disabled (mentally or physically) citizens, and/or enhance their quality of life through reduction of hunger, lack of housing and medical attention, etc.

### 3. Enhancement and Promotion of the Public Health<sup>7</sup>

Definition: Services designed to improve the quality of life and health of either all citizens, or those pertaining to targeted behaviors or conditions. Reducing the costs to the state of the category above is a corollary purpose.

### 4. Workforce Support

Definition: All services provided that support a trained and productive workforce, including those that are specifically designed to protect their health and economic status. Does not include services designed specifically for the economically or developmentally challenged.

### 5. Development of Full Educational Potential of State's Citizens

Definition: Provision of public educational services. Does not include training provided by the state such as retraining of displaced workers, or vocational rehabilitation.

### 6. Consumer/Citizen Protection<sup>8</sup>

Definition: Services designed to protect the health and safety of citizens from sources related to activities and/or consumption of products.

### 7. Economic/Business Development

Definition: Services directly related to improving business climate and/or creation of jobs, or designed to aid specific businesses or types of businesses. Those services not specifically directed to this purpose are listed by their primary purpose.

### 8. Protection, Enhancement, Remediation of Natural Resources

Definition: Services conducted to protect, or eliminate or alleviate past or current harmful impacts to, the state's natural resources; and/or restore the beauty and/or productive capacity of those resources.

### 9. Preservation/Enhancement of Recreational/Cultural Resources

*Definition: Those services not related directly the health and safety of citizens or the environment, but that enhance the experience of living in Montana.*

### 10. General Operation of State Government

Definition: Those operations designed specifically for the operation of state government in support of other programs.

### 11. Infrastructure – Governmental and Physical

Definition: Those operations that either provide for the state's physical infrastructure, such as roads, or without which government would not function, such as the legislature and the Governor.

Where do programs for addiction fall? Homeland security?

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<sup>5</sup> General protection, dispute resolution/mediation, rehabilitation.

<sup>6</sup> Assistance to economic/physical/mental disadvantaged.

<sup>7</sup> Non-direct poverty related.

<sup>8</sup> Non-justice related, or specific to groups rather than the general public.

## ATTACHMENT C



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

Room 110 Capitol Building \* P.O. Box 201711 \* Helena, MT 59620-1711 \* (406) 444-2986 \* FAX (406) 444-3036

Legislative Fiscal Analyst  
CLAYTON SCHENCK

DATE: May 23, 2006

TO: Legislative Finance Committee

FROM: Lois Steinbeck  
Marilyn Daumiller  
Kris Wilkinson

RE: Deficit Reduction Act of 2005 – Update

### SUMMARY

The Legislative Finance Committee (LFC) heard a staff report about the Deficit Reduction Act of 2005 (DRA) at its last meeting. The report highlighted changes made by the act that might increase costs for the programs administered by the Department of Public Health and Human Services (DPHHS) and those that might decrease costs. Much of the information given to the LFC in March has not changed. This memo summarizes new information related to the DRA.

### LEGAL STATUS

At least two legal actions have been filed challenging the constitutionality of the act since the U.S. House passed a version of the act that is different than the version passed by the U.S. Senate.<sup>1</sup> The President signed the senate version. There has been no court determination. At this time, federal agencies are moving forward to implement the act.

### OTHER DRA ISSUES

DPHHS has undertaken, explored, or will undertake several activities related to the DRA. Each is summarized and explained below.

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<sup>1</sup> Jim Zeigler's lawsuit is Civil Action: 2006-80 and was filed in the U.S. District Court for the Southern District of Alabama on February 13, 2006. The Public Citizen case is: Case No. 06-00523, filed in the U.S. District Court for the District of Columbia on March 21, 2006.

## **Medicaid Drug Reimbursement**

DPHHS has made a preliminary estimate of savings related to changing Medicaid drug reimbursement from the average wholesale price to the average manufacturer's price as part of its appropriation transfer request. DPHHS estimated a 2 percent savings, which would equate to a \$0.3 million savings in the first full year of implementation.

The change in drug reimbursement was one of the suggestions made by the National Governor's Association as well as the Medicaid advisory commission to the Centers for Medicare and Medicaid Services (CMS). Those organizations predicted much higher rates of savings – potentially 10 to 15 percent of drug costs.

If drug reimbursement costs decline more than estimated by DPHHS, the agency has stated that it will most likely raise the pharmacy-dispensing fee to ensure that local pharmacies will still participate in Medicaid. The current dispensing fee is \$4.70 per service.

State savings could be greater than currently estimated by DPHHS. For instance, if drug cost reductions were 10 percent and DPHHS increased pharmacy dispensing fees by \$1, there would be a net savings of about \$970,000 general fund in the first full year of implementation assuming FY 2005 trends in the number of scripts and the increase in pharmacy costs continues.

## **Demonstration Grants for Children's Mental Health Services**

The DRA established 10 demonstration grants to serve children in the community who might otherwise be served in an inpatient residential treatment center. The grants run for five years. Grants are supposed to be effective January 2007, and with a request for solicitation issued by the end of June. That time schedule appears to be extremely challenging.

DPHHS will apply for one of the grants. The grants will have some of the same characteristics as a waiver in that they must be cost neutral and will be awarded under some of the same guidelines as a Medicaid waiver. DPHHS is finalizing its definition of a target population and the number of service slots that will be included in its request.<sup>2</sup>

During the last session, DPHHS had indicated that it potentially would apply for two Medicaid waivers for children with a serious emotional disturbance (SED):

- 1) A waiver of deeming that allows states to disregard parental income and resources in determining a child's eligibility for Medicaid services, similar to the current waivers to serve children with a developmental or physical disability; and
- 2) A home and community based services (HCBS) type waiver that would allow the state to provide unique types of services to SED children in their homes and community.

DPHHS has opted to not pursue either waiver. The waiver of deeming is projected to cost too much. The level of service and cost neutrality conditions of the HCBS waiver were too narrow

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<sup>2</sup> Pete Surdock, Bureau Chief, Children's Mental Health Bureau, Health Resources Division, DPHHS, personal conversation with Lois Steinbeck, May 24, 2006.

to be as useful as DPHHS originally hoped.<sup>3</sup> If DPHHS is successful in obtaining one of the grants authorized by the DRA, it will be able to provide some of the same unique services it originally planned but without having to obtain a waiver.

### **New Medicaid State Plan Service**

The DRA allows states to offer some of the services formerly available only through an HCBS waiver as a new state plan service. DPHHS researched this new service as an option to pursuing the HCBS waiver for adults with a serious and disabling mental illness (SDMI). However, the types of services available under the state plan option were not the types of community services that DPHHS believes are needed to serve adults with an SDMI successfully in the community. Had the option been a good fit, potentially DPHHS could have implemented its community services quicker and helped alleviate high patient levels at the Montana State Hospital.

### **FUTURE UPDATES**

LFD staff will continue to monitor implementation of the DRA and provide updates to the LFC. DPHHS staff is hopeful that the draft regulations implementing changes to targeted case management will be published prior to the June LFC meeting, which would provide guidance on whether the potential \$3 million general fund cost included in the DPHHS budget status report for FY 2006 will occur.

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<sup>3</sup> The federal Centers for Medicare and Medicaid Services (CMS) would only consider HCBS services for children who required the level of care provided in an inpatient psychiatric hospital for placement in the waiver. DPHHS had hoped to establish the level of care requirement nearer to that of a residential treatment facility, such as Shodair Residential Treatment, Yellowstone Boys and Girls Ranch and Kids Behavioral Health in Montana.



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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Legislative Fiscal Analyst  
CLAYTON SCHENCK

DATE: March 6, 2006  
TO: Legislative Finance Committee  
FROM: Lois Steinbeck  
Marilyn Daumiller  
RE: Federal Deficit Reduction Act of 2006

### PURPOSE

This memo summarizes preliminary information about the federal Deficit Reduction Act of 2006 (act) and highlights some of the major impacts of the President's proposed federal fiscal year 2007 budget. There is a legal challenge to the act, since the U.S. House and Senate passed different bills, and the President signed the Senate version of the bill. Pending the outcome of the legal challenge, Legislative Fiscal Division (LFD) staff with assistance from Department of Public Health and Human Services (DPHHS) staff compiled a summary of some of the impacts of the act. Staff will continue to gather and refine information about the act for the June Legislative Finance Committee (LFC) meeting, but felt it was important for legislators to understand some of the more significant ramifications of the act. Some of the major impacts can be determined only after the federal Centers for Medicare and Medicaid Services (CMS) issues guidance interpreting some provisions of the act.

### MAJOR IMPACTS

Figure 1 summarizes the potential impacts of the act, and in most cases presents the worst-case scenario if the legislature were to appropriate general fund to maintain services at the current level - \$9.3 million this biennium and \$19.9 million in the 2009 biennium. These cost increases do not take into account savings that are expected to accrue due to the change for Medicaid drug reimbursement based on the manufacturer's price. Neither do these estimates include any cost saving measures or any reductions in services that the legislature may deem prudent.

### Targeted Case Management

The most significant cost appears to be due to changes in targeted case management services at about \$6.9 million this biennium and \$11.8 million over the 2009 biennium.

However, as illustrated in Figure 1, LFD staff could not provide complete information for fiscal years 2006 and 2007 in the category of Targeted Case Management because estimates were received only from the Foster Care and Disability Services programs. From the data received, the most significant programmatic changes that cause the cost shift are:

- o Changing the definition of services that qualify for Medicaid reimbursement
- o Disallowance of Medicaid reimbursement for case management services provided by child welfare workers
- o Disallowance of Medicaid reimbursement for case management services that could be provided by third party payors, which could include the State of Montana, which provides general fund supported case management services in the developmental disability system

### **Child Support Enforcement**

The act makes several changes to the Child Support Enforcement Program, which net to an estimated cost of \$3.6 million in the 2009 biennium and are nearly a wash this biennium. The most significant change prohibits states from using federal incentive funds received for meeting or exceeding the federal incentive performance measures as a match for federal child support enforcement funding. Montana has historically deposited the incentive funds into a state special revenue account and used them as match (34 percent state/66 percent federal).

Another change that will provide revenue to the state is a mandatory fee of \$25 annually for child support collection services. The fee must be levied on families that have never been on TANF cash assistance.

Child support paternity testing services were previously eligible for a 90 percent match. The act lowers the federal match to 66 percent, the match rate for other program operating costs.

### **Foster Care Services**

The bill clarifies the limited circumstances under which a state may claim federal reimbursement for administrative expenses under the Foster Care Maintenance Payments Program, and narrows the licensing requirement for relative caregivers. The financial impact is not large, but the potential loss of grandparents or other relatives that would otherwise be willing to foster a child if there was no licensing requirement could impact children.

### **Other Medicaid Services**

In addition to changes in targeted case management, the act reduces reimbursement for school transportation for special needs children to and from Medicaid services at an estimated cost of \$4 million over the 2009 biennium. Schools that rely on Medicaid payment for such services would lose the reimbursement.

One change that is expected to lower Medicaid costs alters prescription drug pricing. Medicaid program reimbursement for drugs will be based on manufacturer's cost, replacing the drug rebate practice.<sup>1</sup> Until states receive federal guidance, it is unknown what impact this change will have.

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<sup>1</sup> Drug rebates are paid by manufacturers to state Medicaid programs based on the quantity of drug purchased and a price calculated according to federal Medicaid criteria. Rebates offset Medicaid program expenditures.

## FEDERAL 2007 BUDGET PROPOSAL

The President's proposed budget for federal fiscal year 2007 includes more reductions in federal funding for social and human services programs. Changes that can be estimated and appear to be in excess of \$1 million, the amount, and impacts are:

- o \$28.6 million reduction in matching funds due to changes in Medicaid provider taxes
  - o Impacts to hospital and nursing home services due to reduction in Medicaid rates
- o \$5.6 million reduction in federal matching funds for Medicaid targeted case management services (match rate falls from about 70 percent to 50 percent)
  - o Impacts to developmental disabilities, senior and long-term care, and adult and child mental health services systems
- o \$5.4 million reduction due to capping payments to government providers
  - o Impact to nursing facilities program
- o \$3.0 million loss from elimination of Community Services Block Grant
  - o Impact statewide for Human Resource Development Councils
- o \$2.0 million in rural health funding
- o \$1.65 million in reduced funding for Children's Health Insurance Program (CHIP)
- o \$1.6 million reduction in Social Services Block Grant
  - o Impact to developmental disabilities and adult protective services

**Figure 1**  
Possible Major Impacts of the Deficit Reduction Act on the General Fund

Program/Change	Start Date	Percent of		Cost/Savings to the General Fund		
		State Match	Fed Match	Expenses Positive; Revenue (Negative) FY 06	FY 07	2009 Bien
<b>Child Support Enforcement</b>						
Incentive Match Elimination	10/1/07	34.0%	66.0%	\$0	\$0	\$3,736,765
Paternity Testing Match Reduction	10/1/06	34.0%	66.0%	0	14,471	38,588
\$25 Mandatory Fee for Families Never on TANF	10/1/06	34.0%	66.0%	27,744	(33,819)	(127,178)
<b>Subtotal Child Support Enforcement</b>				<b>27,744</b>	<b>(19,348)</b>	<b>3,648,175</b>
<b>Targeted Case Management</b>						
New Definition of Services and Third Party Payor						
<i>Foster Care</i>						
<i>Disability Services</i>	1/1/06	30.9%	69.1%	1,700,000	2,200,000	4,400,000
<i>Aged/Disabled and Mental Health Services</i>	1/1/06	30.9%	69.1%	unknown	unknown	3,400,000
<b>Subtotal Targeted Case Management</b>				<b>2,700,000</b>	<b>4,200,000</b>	<b>11,800,000</b>
<b>Foster Care</b>						
<b>CFSD</b>						
Eliminated IV-E Match for Administration in Certain Situations	10/1/05	0.0%	0.0%	\$129,000	\$172,000	\$344,000
Changes the Home of Removal Requirement Retroactive to 10/1/2005	10/1/05	0.0%	0.0%	75,000	100,000	200,000
<b>Subtotal Foster Care</b>				<b>204,000</b>	<b>272,000</b>	<b>544,000</b>
<b>Other Medicaid Funded Services</b>						
School Based Transportation Services	10/1/06			\$500,000	\$1,500,000	\$4,000,000
Asset Transfer - Change the Lookback to 5 Years		30.9%	69.1%	unknown	unknown	unknown
Begin Penalty Period at the Date of Eligibility		30.9%	69.1%	unknown	unknown	unknown
Drug Reimbursement Formula Based on the Manufacturer's Price of Drugs		30.9%	69.1%	unknown	unknown	unknown
<b>Total Deficit Reduction Act</b>				<b>3,431,744</b>	<b>5,952,652</b>	<b>19,992,175</b>

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# LEGISLATIVE FINANCE COMMITTEE

## 59<sup>TH</sup> Montana Legislature

Room 110 Capitol Building \* P.O. Box 201711 \* Helena, MT 59620-1711 \* (406) 444-2986 \* FAX (406) 444-3036

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FILE COPY

May 8, 2006

Honorable Max Baucus  
Room 511 Hart Senate Office Building  
Washington, D.C. 20510

Dear Senator Baucus:

The Legislative Finance Committee of the Montana Legislature is deeply concerned about the potential impacts of federal budget reductions being considered in Washington D.C. As a result, the committee, on a 7 to 5 vote, acted to express in writing our concerns and to ask you to carefully consider the impacts to the state of Montana of any proposed reductions or changes to the federal Medicaid program and other human service programs. The recently passed Deficit Reduction Act of 2005 (DRA) may significantly raise the cost to continue services for some of the most vulnerable Montanans without establishing avenues useful to Montana to immediately offset the cost increases. The President's 2007 proposed budget exacerbates the situation even further.

The state of Montana provides Medicaid services to more than 100,000 Montanans each year - more than 10 percent of the state's population. The Montana Medicaid program covers 45 percent of the births in the state. It is a vital component of the health care safety net for many Montanans. Medicaid payment for services for those with no other health insurance helps ensure the financial viability and continued availability of health services for all Montanans, particularly in the rural areas of our state.

Eligibility standards for the Montana Medicaid program are set at or near the minimum levels allowed by federal law, while the service array is broad. The design of the program allows Montana to serve the poorest, most vulnerable of its citizens and provide cost effective services, especially in rural areas.

## **Specific Impacts to Montana**

- The most significant change in the DRA impacts targeted case management services funded by Medicaid. The DRA could increase state general fund costs by \$6 million annually, depending on how the rules to implement the act are structured. The changes in the DRA as well as those proposed in the President's budget request would impact children in foster care, developmentally disabled and physically disabled children and adults, as well as children who have a diagnosed behavioral or emotional disturbance or mental illness as well as adults with a serious and disabling mental illness.
- Additionally, the federal government has historically provided incentive payments to Montana's Child Support Enforcement Division (CSED) that were reinvested in the state's child support enforcement programs and garnered a 66 percent federal match when spent. The DRA eliminates the 66 percent federal incentive match at a potential cost of about \$2 million annually should the legislature opt to use general fund to continue CSED at the same level.
- The DRA also reduces Medicaid reimbursement to schools for transportation to and from Medicaid funded services for children with special needs. This change is estimated to reduce school funding by about \$2 million per year.

## **Other important impact of the DRA and potential costs to Montana**

- To be fair, the DRA makes some changes to the federal Medicaid program to effect savings, while not reducing services. However, those measures may not offset the cost increases to the state of Montana. For instance, the provisions to extend the look back period for illegal asset transfers to enable persons to artificially impoverish themselves in order to obtain Medicaid eligibility will result in cost avoidance, but not immediate savings to offset immediate cost increases. The same is true for the "dollar for dollar" provisions of the DRA, which allows states to disregard an amount of assets up to the limit of the long-term care insurance coverage procured by Medicaid applicants.
- It is also not clear at this point whether changing to drug reimbursement based on the manufacturer's cost will provide sufficient immediate savings to offset immediate cost increases. Montana will likely incur some costs due to the drug reimbursement change, as it may need to increase the pharmacist-dispensing fee in order to maintain access and financial viability, particularly for small, rural pharmacies.
- The requirement to charge for child support enforcement services imposed by the DRA is estimated to raise about \$60,000 annually, which is substantially less than the amount needed to replace the \$2 million lost due to changing the federally allowable use of incentive funds discussed previously.
- One DRA cost saver that could conceivably increase Medicaid costs for Montana is the ability to offer home and community based services to some groups without a

Medicaid waiver. Depending on whether and how the state implements that change, it could raise state costs if persons have stayed in the community with support from their families or others, but would move into such Medicaid services if additional services were funded by the state.<sup>1</sup>

### **Impact of President's Proposed Budget**

We would also like to highlight the most significant impacts to Montana of the President's proposed budget. Those impacts are:

- A reduction in the amount of Medicaid matching funds that can be raised from provider taxes from 6 to 3 percent of total industry revenues. This would result in a loss of nearly \$29 million annually, which could severely compromise the continued economic viability of nursing home care in smaller and rural communities.
- Elimination of \$3 million from the Community Services Block Grant (CSBG) would place the delivery of low-income services such as energy assistance, weatherization, health care, nutrition, childcare, employment training, and services for the aging at risk. Ten Human Resource Development Councils (HRDC) in Montana serve as the network for delivery of these services, and up to four HRDCs would be eliminated if CSBG funds cannot be replaced.
- A reduction of about \$2 million in federal funds for the Children's Health Insurance Program (CHIP) would require reductions in the number of children served or reductions in payments for services.
- A reduction of about \$2 million in funding for rural health services would reduce the financial viability and availability of rural health care services for all Montanans.
- Reduction of \$1.8 million in the Commodity Supplemental Food Program would eliminate up to 80,000 supplemental nutritional food packages valued between \$35 and \$50 and available to seniors and persons eligible for the Women, Infants and Children (WIC) feeding program.

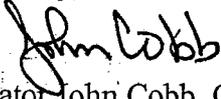
Montana, like the federal government, is facing pressures to not only maintain, but expand funding for health care, education, transportation, and public health services, while not increasing tax burdens or debt. The cost just to continue health care services currently provided in 2006 and 2007 will be significant in the next biennium – \$22 million general fund estimated at this time, but potentially up to \$40 million if the President's proposed budget is enacted. The cost to maintain current level services will make it difficult, if not impossible, to fund increases for normal Medicaid program growth let alone provide funding for service enhancements or explore innovative programs that may reduce costs in the long run.

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<sup>1</sup> Please note that the State of Montana routinely screens persons in nursing homes for placement in home and community waiver slots and that the legislature has provided incremental funding increases over the years to expand such community services.

While we know that your job is just as difficult as our job when it comes to establishing a balanced budget, please give your careful consideration to changes in Medicaid and other human services programs that could harm the most vulnerable Montanans and negatively impact the availability of and access to health services for all Montanans.

Sincerely,



Senator John Cobb, Chairman

The following members of the Legislative Finance Committee concurred with the motion:

Senator John Cobb, Chairman

Representative Rosalie Buzzas, Vice-Chair

Senator Mike Cooney

Representative Gary Branae

Senator Don Ryan

Representative Tim Callahan

Senator Carol Williams

# APPENDIX D

Fed Funds Project - [View/Edit FedFund Records]

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<b>CFDA Number</b>	<b>Federal Funds Name</b>	<b>Granting Agency</b>	
93 558	Temporary Assistance for Needy Families	Health and Human Services	<a href="#">CFDA Home Page</a>

**Federal Purpose**

To provide grants to States, Territories, or Tribes to assist needy families with children so children can be cared for in their own homes; promote job preparation, work and marriage; reduce and prevent out-of-wedlock pregnancies; encourage the formation and maintenance of two-parent families

STATE | **FEDERAL** | OUTLOOK

**Function**

TANF Benefits

**State Purpose**

As established during the 2005 legislative session, to be eligible for TANF cash assistance benefits, the family income must be at or above 33 percent of the 2005 federal poverty level. Montana makes employment and increased self-reliance its highest priority, with emphasis on barrier reduction and employment support. The state provides: 1) cash assistance to low-income families; 2) activities and cash assistance for work participation and support; 3) after-school support programs; 4) emergency foster care assistance; 5) abstinence education; and 6) activities to reduce and prevent out-of-wedlock pregnancies, and encourage the formation and maintenance of two-parent families

<b>Overarching Policy Objective</b>	<b>Grant Type</b>	<b>Discretionary Type</b>
Reduction of Incidence and Impacts of Poverty/Disability	Formula	Priority

**Allocation Method**

This is a block grant that provides financial support amount based upon the historic level of federal spending on related programs. The state gets a letter telling them how much they have available. States incur the costs and draw the funds quarterly. States have broad flexibility to use the funds in any manner that meets the federal program purposes. Funds cannot be used for medical assistance, except pre-pregnancy family planning. States must achieve minimum work participation rates.

<b>Required by Statute</b>	<b>Primary Beneficiary</b>	<b>Distribution Type</b>
None	Families	Direct payment to primary beneficiary

**Other Beneficiary**

Private Contractors

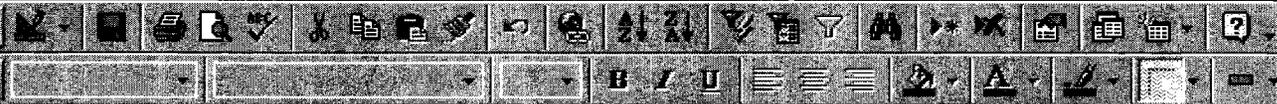
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Record: 66 of 84

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Fed Funds Project - [View/Edit FedFund Records]

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CFDA Number	Federal Funds Name	Granting Agency
93 558	Temporary Assistance for Needy Families	Health and Human Services

[CFDA Home Page](#)

Federal Purpose

To provide grants to States, Territories, or Tribes to assist needy families with children so children can be cared for in their own homes; promote job preparation, work and marriage; reduce and prevent out-of-wedlock pregnancies; encourage the formation and maintenance of two-parent families

STATE FEDERAL **OUTLOOK**

Match

Fed %

State/Local %

Other %

Factors

MDE

\$ Amount

Factors

The amount is presently based upon 75% of what Montana spent in 1994/5 on the original AFDC match.

Reporting Requirements

Factors

The state must report quarterly on expenditures and provide demographic data on clients in the TANF program. Additional reports are required for client participation in work activities, transitional service participation and child poverty statistics. The state must also document that it has spent the required Maintenance of Effort every year, no matter how much of the TANF block grant the state spends or doesn't spend. There is a penalty for not spending the MOE. Depending upon the amount of unspent MOE, Montana's penalty could surpass \$1 million of general fund dollars.

Performance Requirements

Factors

TANF laws stipulate that the state may serve a TANF family for only five years and that TANF funds are used to serve families with children. Each state is required to maintain a spending level of 75 - 80 percent of what it spent in the 1995 AFDC program on Maintenance of Effort activities. States must provide a state plan that includes activities to enhance the federal goals for the program. Two key elements are work requirements and

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Record:  of 84

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Fed Funds Project - [View/Edit FedFund Records]

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CFDA Number: 93 558  
Federal Funds Name: Temporary Assistance for Needy Families  
Granting Agency: Health and Human Services

[CFDA Home Page](#)

Federal Purpose

To provide grants to States, Territories, or Tribes to assist needy families with children so children can be cared for in their own homes; promote job preparation, work and marriage; reduce and prevent out-of-wedlock pregnancies; encourage the formation and maintenance of two-parent families

STATE FEDERAL **OUTLOOK**

Funding Level 1: Decreasing  
Funding Level 2: Not keeping up  
Match Rate: N/A  
MOE: Stable  
Performance Requirements: Increasing

Comments

The funds are allocated, but "frozen" through 2010 and there is no adjustment for inflation. The grant projected value in SFY 2005 was \$20 million. The projected value for SFY 2010 is \$14 million. The 2006 Federal Deficit Reduction Act implemented a recalibration of the work participation rates, the state is at greater risk of not meeting participation rates. If the rate is not met, the penalty structure is to decrease the block grant by one to five percent and the state must replace an equal amount with state dollars. Additionally, the MOE increases to 80 percent from 75 percent. Moving to an 80 percent MOE would cost \$0.8 million general fund. The one to five percent penalty decrease on the block grant for Montana would be from \$0.3 to \$1.9 million with an equal amount of general fund required to back-fill the penalty amount. (Section 53-4-211, MCA charges the department with general supervision and administration of TANF, and section (2) says the state "shall maintain at least 75% of its historic state expenditures as maintenance of effort.")

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