2021 BIENNIUM OUTLOOK
GENERAL FUND BUDGET

JUNE 18, 2018

LEGISLATIVE FISCAL DIVISION
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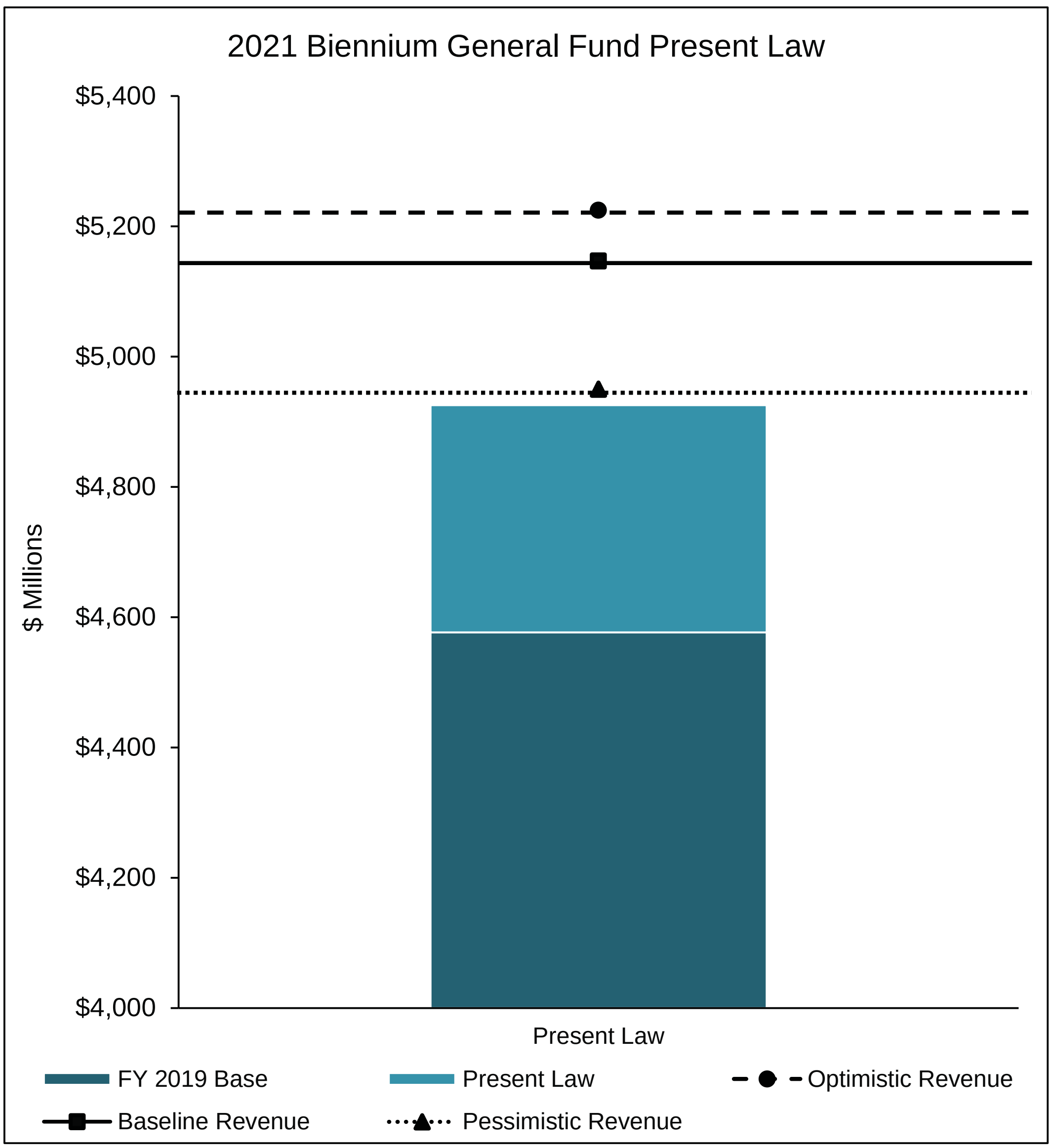
MONTANA LEGISLATIVE FISCAL DIVISION

PRESENT LAW FOR THE 2021 BIENNIUM

Present law is the additional level of funding needed to maintain operations and services authorized by the previous legislature as ongoing. The graphic below illustrates present law expenditures in relation to anticipated revenues. As the graphic depicts, the 2021 biennium baseline, optimistic, and pessimistic revenue projections are above present law expenditure assumptions. Baseline revenues are $5,147 million compared to a total base budget plus present law of $4,925 million.

Present law adjustments from the base total $348.6 million. While present law includes the level of funding authorized by the previous legislature, in the session and interim many reductions were taken that were unclear as to the intent to the underlying program. When unclear, the Outlook present law level assumes the level the executive could request in present law, including the level of the Medicaid entitlement program.

In comparison to previous biennial Outlook present law adjustments, this amount for present law is unusually high. Most of the non-standard items occur in the budget of the Department of Health and Human Services (DPHHS), but some are associated with K-12 funding.



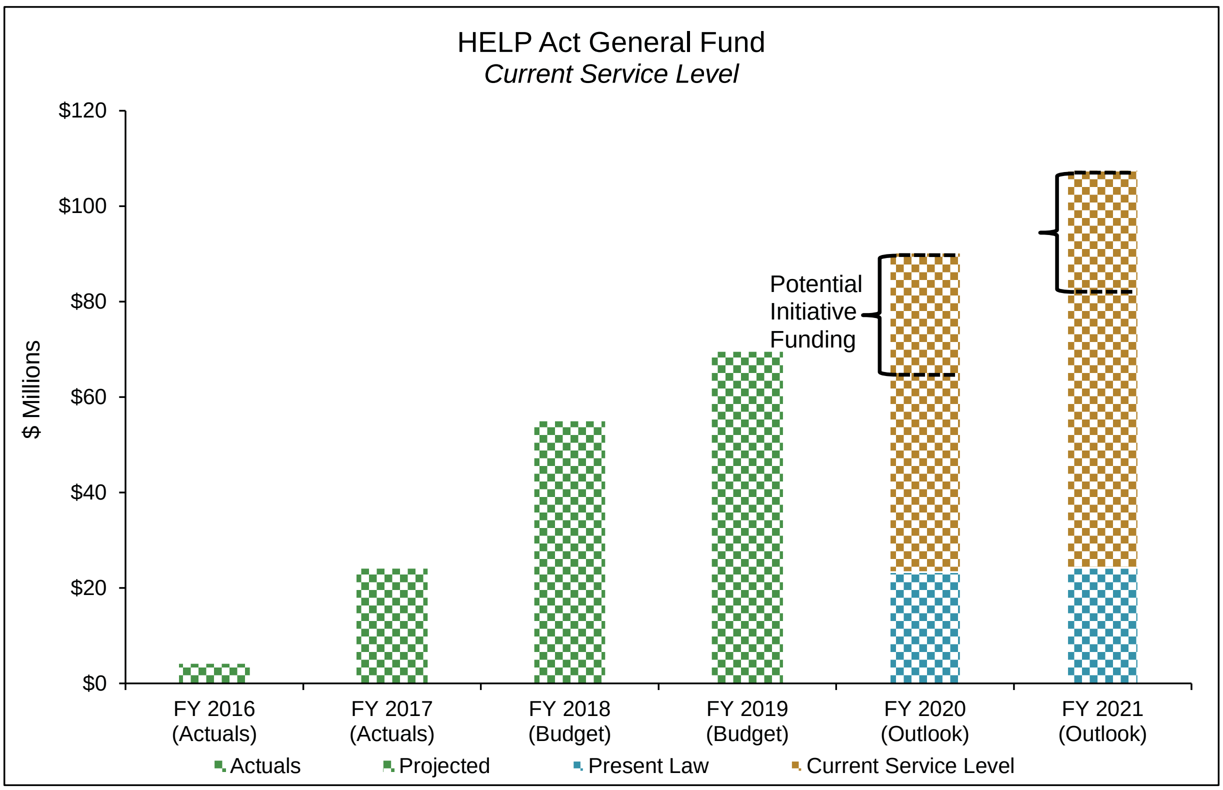
SECTION B: HEALTH AND HUMAN SERVICES

The Department of Public Health and Human Services (DPHHS) expenditure projections fit into three main categories: present law (including statewide present law adjustments), pressures, and current service level for a total of $385 million for the 2021 biennium. This section provides further detail on the expenditure projections of the two largest subsets of the DPHHS budget, as well as the total budget. The section is organized as follows:

- HELP Act (Medicaid expansion)
- Total Medicaid Benefits & Claims
- Total DPHHS Budget

Montana Health and Economic Livelihood Partnership (HELP) Act

The HELP Act SB 405 (2015 Session) authorized an expansion of Medicaid under the Affordable Care Act. HELP provides coverage to childless adults under 138% of the federal poverty level, but includes a sunset provision that terminates the act at the end of FY 2019. As a result, without legislation or the passing of I-185, which extends the HELP Act, the HELP Act does not exist in the 2021 biennium. Consistent with the treatment of other sunset expenditures for services that could be considered ongoing, the cost of the continuation of Medicaid expansion is included as a current service level in the Outlook analysis.



The three components shown above for the 2021 biennium include:

1) A present law component that will be required if the HELP Act expires;
2) The additional current service level amount to meet the projected expenditures under Medicaid expansion if it is extended; and
3) The possibility of a reduced general fund impact, as a result of I-185, which would provide up to $26 million per year of new state special revenue to cover a portion of the costs of the HELP Act. This is shown as a positive risk, but not included in the total costs.

Present Law

Approximately 8,500 people moved from traditional Medicaid into the expansion population, allowing the state to save money by leveraging a higher federal matching rate for HELP participants. It is assumed that HELP participants eligible for traditional Medicaid would switch back if the HELP Act expires, creating a present law cost to pay a higher state portion for benefits and claims, with an estimated general fund impact of $47.6 million during the 2021 biennium.

Current Service Level

Spending levels are impacted by two main variables: participation rates and the Federal Medicaid Assistance Percentage (FMAP).

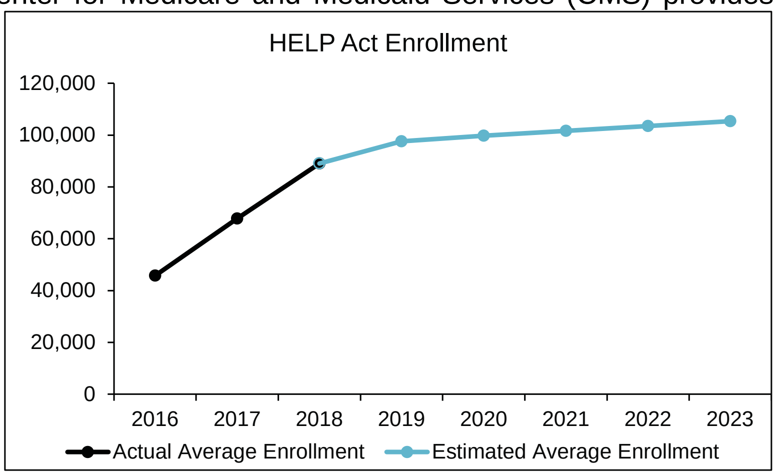
FMAP

The FMAP for HELP benefits started at 100% in 2016, however, each year a phased-in reduction requires an increased share from the state. The requirement will level off, under the current waiver, in calendar year 2020 when the federal share will be 90% and Montana's share will be 10%. During the 2019 biennium, Montana's share of HELP services averaged 6%. The state share will be 7% for the first six months of the 2021 biennium, at which point it will max out under present law.

Federal Match Rate		
Calendar Year	Federal Share	State Share
2016	100.0%	0.0%
2017	95.0%	5.0%
2018	94.0%	6.0%
2019	93.0%	7.0%
2020+	90.0%	10.0%

Participation

On March 1, 2018, enrollment reached 93,950. According to the most recent census data, approximately 109,000 Montanans meet the eligibility requirements for HELP enrollment, so the growth in enrollees should begin to slow. The Center for Medicare and Medicaid Services (CMS) provides federal oversite of Medicaid; their actuaries predict the take-up rate for Medicaid expansion could reach 95% in 2020. This means Montana would have around 104,000 enrollees by 2020.



Finally, as previously noted, the state portion of Medicaid expansion has been phased-in and will max out starting in CY 2020. Once the state obligation of Medicaid expansion hits 10%, if enrollment stabilizes around 100,000, assuming annual participation growth of 1%, the state portion to cover expansion costs will increase around $5 million/fiscal year.

The total projected cost to the state for Medicaid expansion in the 2021 biennium is $197.9 million.

Pressures if HELP does not continue

Since January 1, 2016, some inmates in Montana prisons have qualified for HELP benefits. If the offender qualifies for HELP and receives outside medical care lasting more than 24 hours, the benefits are eligible for Medicaid reimbursement. DOC applied for HELP reimbursement 258 times between January 1, 2016 and March 12, 2018. If HELP expires, hospitalizations for inmates that do not qualify for traditional Medicaid would have to be paid for by the department. The same is true for DPHHS institutions with residents receiving HELP eligible outside medical services.

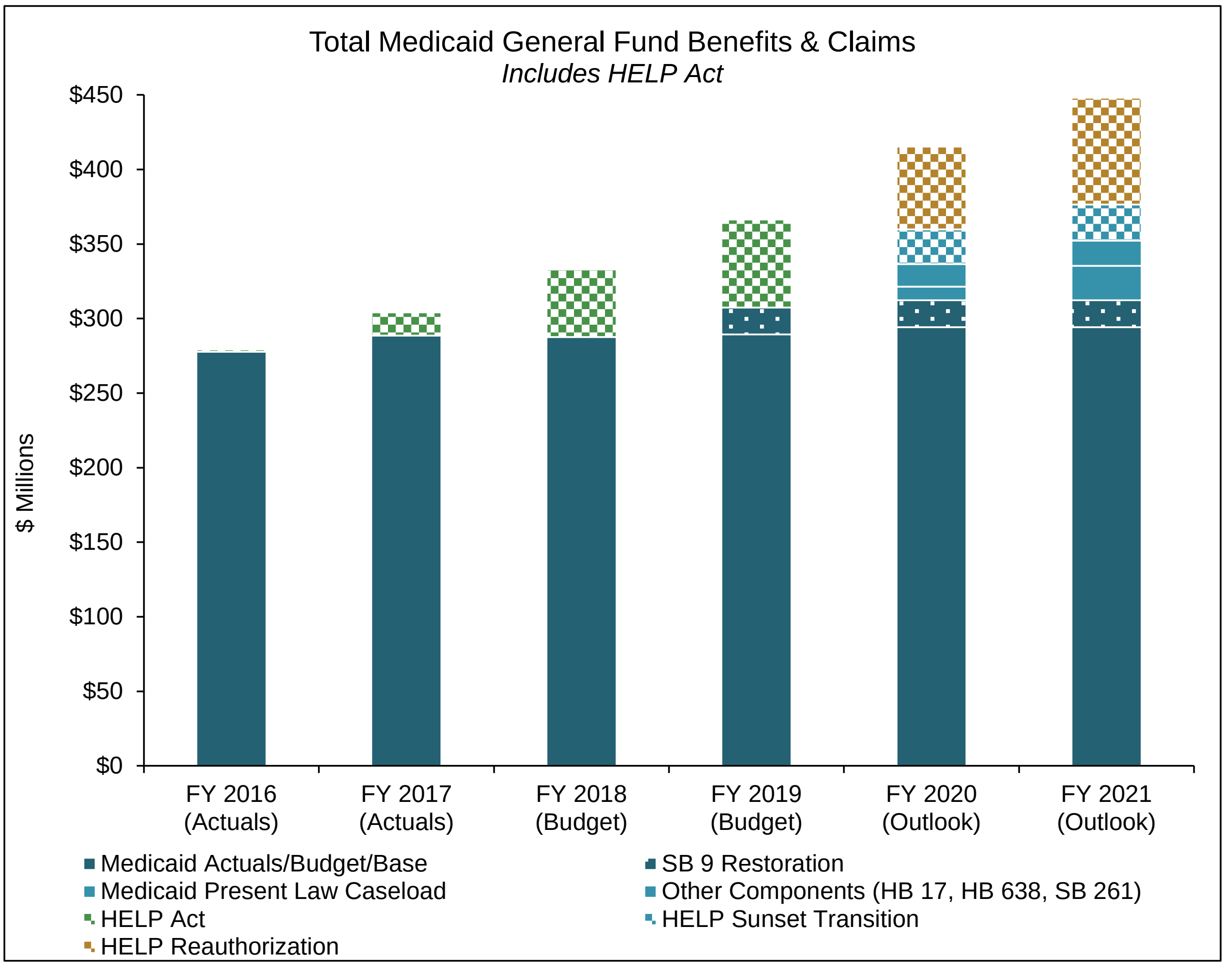
Section 9 of the HELP Act requires DOC and DPHHS to reimburse outside medical at Medicaid rates. This has resulted in reduced costs for both agencies. If the HELP Act does not continue, there will be pressure for the department to pay higher rates for medical services. This cost pressure has not been included in the Outlook totals, since the HELP Act services are assumed to continue.

Ballot Initiative Upside Risk

In February 2018, a ballot initiative was filed with Montana's Secretary of State that would remove the section containing the sunset clause from the HELP Act and increase tobacco taxes. Revenue is generated from increasing the state tax on cigarettes by $2 per pack and increasing the wholesale price of all other tobacco products, including electronic cigarettes, by 33%. If passed, I-185 would result in up to $26 million per year of state special revenue to partially offset the cost to the general fund for Medicaid expansion.

Total Medicaid Benefits & Claims

In the 2019 biennium, $2.5 billion was appropriated for Medicaid benefits & claims, of which $619.8 million was general fund. The graph below illustrates general fund DPHHS Medicaid benefits from FY 2016 to FY 2021, with Medicaid expansion shown with checkered bars.



SB 9 (2017 Special Session) provides for a restoration of the budget reductions made to the FY 2019 department budgets if certain FY 2018 revenue targets are met. Within DPHHS, this would restore almost $30.6 million of general fund authority to the FY 2019 budget, with $18.0 million applied to Medicaid benefits, mirroring the reductions. These amounts are carried through into the 2021 biennium as present law, and specifically identified in the chart above.

Present Law

In addition to the present law included for the Help Act as described in the previous section, there are other Medicaid benefit present law adjustments.

Caseload

Higher present law spending in Medicaid is driven by several factors: higher enrollment in Medicaid, more services provided, and increased costs of those services. The Legislative Fiscal Division Medicaid model uses historical claims data to project future trends in Medicaid expenditures. Caseload growth in traditional Medicaid is expected to cost $31.9 million in state funds for the 2021 biennium. Each state dollar spent on traditional Medicaid is matched with just under two federal dollars.

Other Components

Both HB 17 (2017 Session) and HB 638 (2017 Session) were subsequently modified by SB 261 (2017 Session) due to FY 2017 actual revenues. While the funding was stripped from HB 17, the policy was left in place, and as such was treated as present law in the Outlook. The final status of HB 638 is yet to be determined, as FY 2017 revenues delayed implementation without voiding the bill. There is a second opportunity for this bill to be funded for FY 2019, based on actual FY 2018 revenues, and this bill has also been included as present law in the previous chart. The combined general fund impact of these bills for the 2021 biennium is $18.3 million.

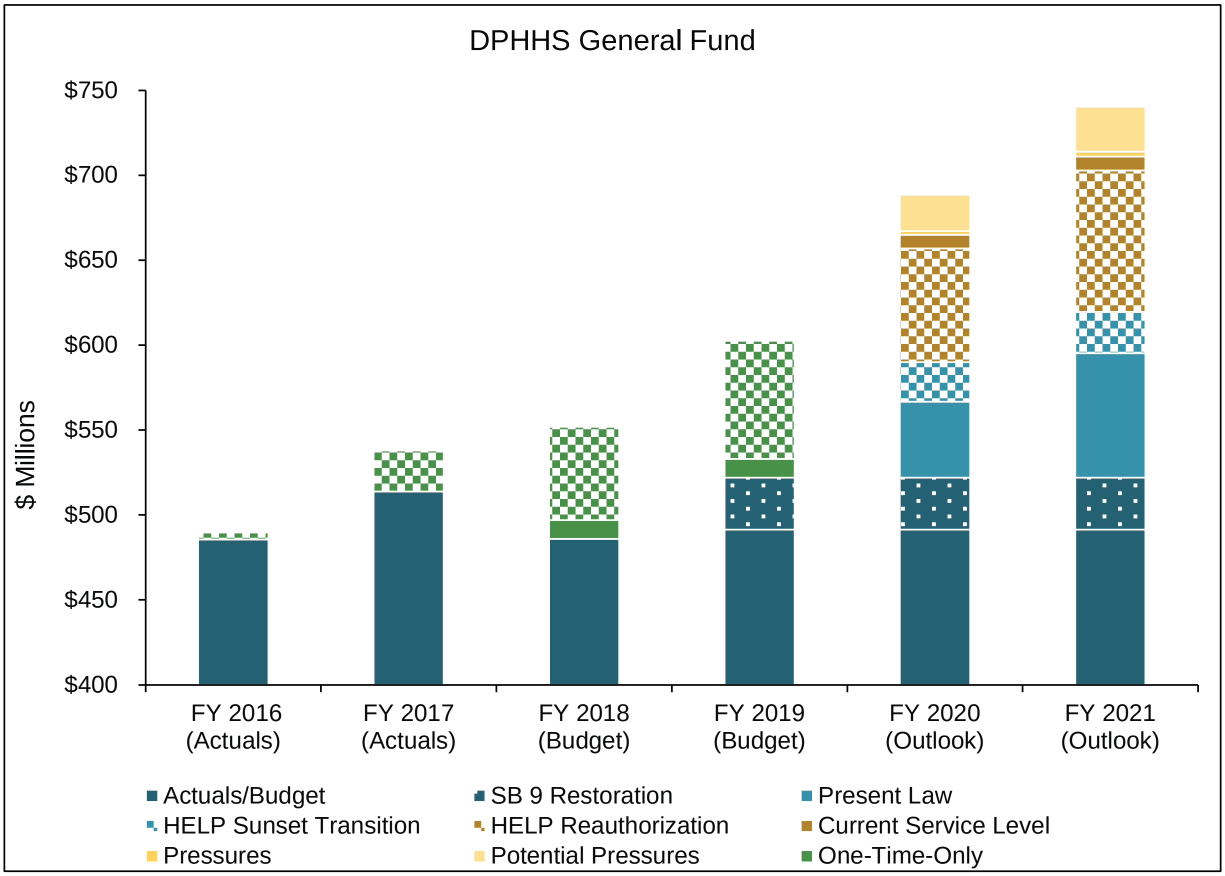
SB 261 also removed Medicaid and non-Medicaid funding in the DPHHS budget. The Medicaid present law caseload adjustment builds on the base, toward a projected total cost, with the SB 261 Medicaid reductions of $13.7 million added back separately.

Current Service Level

The only component included in the total Medicaid benefit current service level category is the continuation of the HELP Act. For more information, see the previous section on Medicaid expansion. Of note however, is that in the previous HELP Act chart on page 20, the total costs of Medicaid expansion, including administration, were included. In the chart on page 22, only benefits and claims are included, to be consistent with the way traditional Medicaid is normally portrayed.

Total DPHHS Budget

While the majority of the large adjustments to the DPHHS budget do happen in Medicaid, there are a variety of other interactions as well. The following chart includes both the previous HELP Act and Medicaid charts into a total DPHHS chart. Many of the pieces are explained in the previous sections, but the overall scale reflects the scope of the entire department budget.



Present Law - Non-Medicaid

In addition to the Medicaid components of present law caseload growth, present law includes an adjustment for the Children's Health Insurance Program (CHIP), Child & Family Services, and two areas where expenditures have overrun previous appropriations: Montana State Hospital and Vocational Rehabilitation.

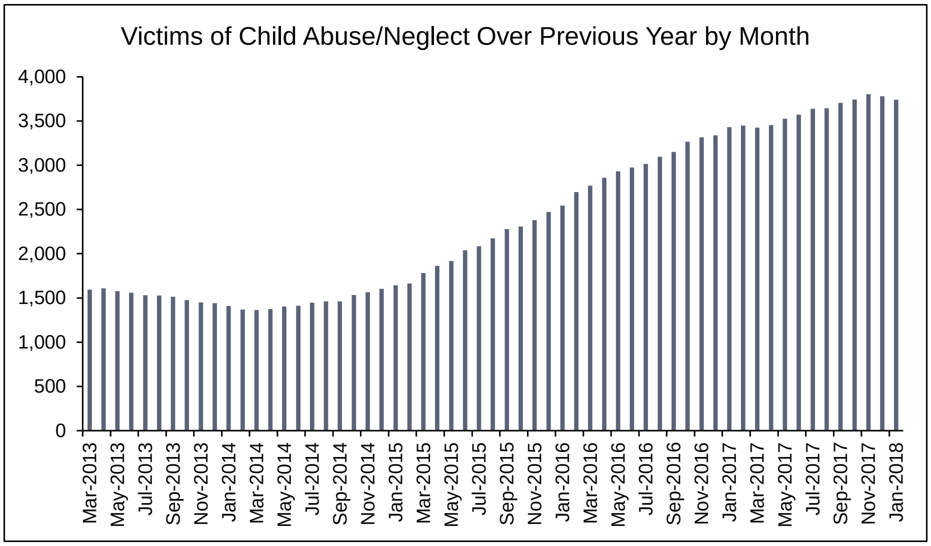
Changes in Children's Health Insurance Program

CHIP has federal matching rates that are higher than those under traditional Medicaid. The "enhanced federal medical assistance percentage" (E-FMAP) for CHIP was increased by 23 percentage points for the 2016-2019 period (from about 76.0% to about 99.0%). This E-FMAP increase declines in future years before going away, which will leave Montana at the standard E-FMAP rate in 2021 and beyond (see table). The additional state funds obligation associated with this federal change is $27.7 million in the 2021 biennium. Note that the table below assumes zero caseload growth, so the total obligation could be higher if significant CHIP caseload growth occurs.

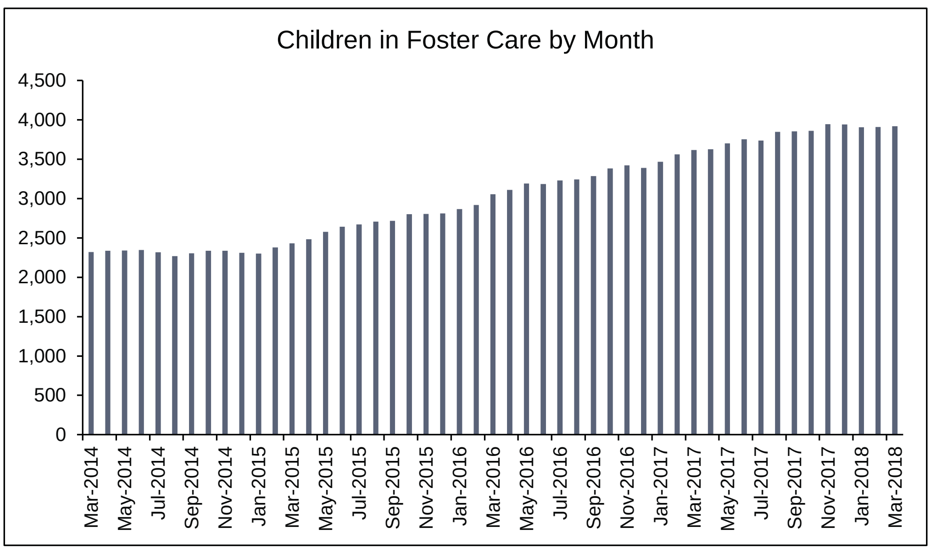
State and Federal Shares of CHIP Benefits Funding ($ Millions)				
State FY	Federal Costs	Federal Share	State Costs	State Share
2014	$72.9	77.2%	$21.5	22.8%
2015	65.1	77.1%	19.4	22.9%
2016	87.9	95.4%	4.3	4.6%
2017	95.7	98.9%	1.1	1.1%
2018	95.7	98.9%	1.1	1.1%
2019	95.7	98.9%	1.1	1.1%
2020	87.4	90.3%	9.4	9.7%
2021	76.3	78.9%	20.4	21.1%
2022	73.5	76.0%	23.2	24.0%
2023	73.5	76.0%	23.2	24.0%

Child and Family Services Division Caseload

The Child and Family Services Division (CFSD) has been experiencing high rates of caseload growth over the past several biennia, resulting in the inclusion of $8 million for caseload growth in the 2021 biennium. The last few months of data suggest growth is slowing or potentially declining.



Increased rates of child abuse and/or neglect impact CFSD in several ways. Higher prevalence rates require higher levels of spending on CFSD administration: more caseworker-hours (and sometimes overtime hours) are needed to investigate and track potential cases of abuse or neglect.



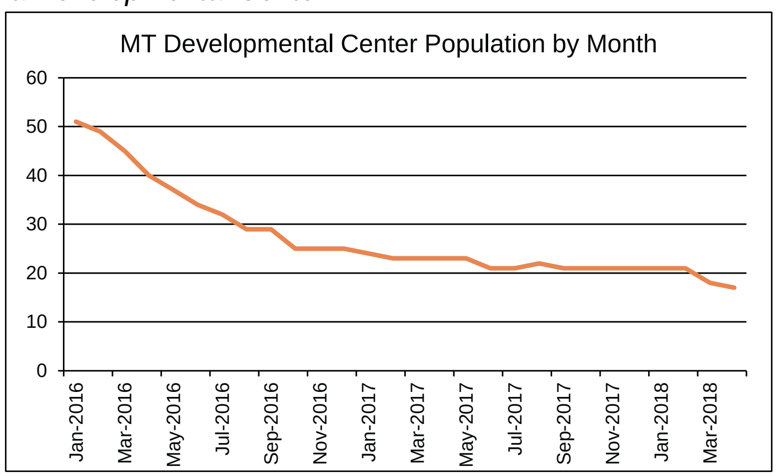
Higher rates of abuse and neglect have tended to lead to more children in foster care in Montana. Montana removes children from the home during such incidents at a higher rate compared to other states, leading to more children in the foster care system. A recent report from the U.S. Administration for Children and Families indicates Montana is not in substantial conformity in any of seven child welfare outcomes or any of seven child welfare systemic factors. The graph above illustrates the growth of children in foster care over the last several years. The last few months of data suggest growth is slowing or potentially declining. Foster care costs were $29.7 million (all fund types) in FY 2017.

Unanticipated Present Law Expenditures
There are two other present law areas in which DPHHS is projected to spend at higher levels than previously anticipated. These areas (Montana State Hospital and the Vocational Rehabilitation Program) are discussed in the March Section B Budget Status Report.

The Montana State Hospital (MSH) was found in January of 2017 by the Centers for Medicare and Medicaid Services (CMS) to have severe staffing shortages. According to CMS, MSH corrected the staffing deficiencies that related to a shortage of nurses and direct-care staff. Since January 2017, expenditures for professional and consulting services at MSH have increased from a monthly average of $0.4 million in FY 2016 to a monthly average of $0.8 million in FY 2018. The costs associated with contract staff are driving the projected present law cost increases for MSH, which total $7.0 million general fund over 2021 biennium.

Spending on benefits in the Vocational Rehabilitation Program has increased sharply over the past two fiscal years from $4.4 million general fund in FY 2016 to $9.5 million general fund in FY 2017. This higher level of spending is expected to continue. This program operates as an entitlement once an individual enters the program, with the only point of control being category closures. All three service categories are now closed and not accepting new participants, and will remain closed until caseload is reduced through case closure and spending comes back in line with the federal grant award. Projected present law cost increases for Vocational Rehabilitation are $4.4 million general fund above the base for the 2021 biennium.

Disability Services Division and the Montana Developmental Center



SB 411 (2015 Session) required DPHHS to develop a plan and close the Montana Developmental Center by June 30, 2017. The department was instructed to transition most residents into community placement by December 31, 2016. HB 387 (2017 Session) extended the closure date to June 30, 2019, and provided for a secure facility on an ongoing basis. In addition, HB 639 (2017 Session) authorized the department to transfer appropriation authority from MDC to cover the expenses of persons that otherwise would have been served at the facility. Most clients at MDC are transitioned to community placement on Disability Services Division (DSD) developmentally disabled (DD) waiver. In FY 2018, DPHHS transferred $2.5 million from MDC to the DD waiver to cover the associated costs. It is assumed in present law that this $2.5 million in general fund authority will remain outside MDC during future biennia, and be utilized for the DD waiver.

Current Service Level

Two items are included in current service level because they were approved by the 2017 Legislature on a one-time-only (OTO) basis:

- $10.2 million to cover a caseload adjustment in Child and Family Services Division (CFSD) for foster care and adoption
- $6 million to fund a limited program for the education of 4-year-olds (pre-K) in the Human and Community Services Division

Pressures

The only item included in the pressures category specific to DPHHS that was not previously included in the Medicaid section is $2.5 million of non-Medicaid reductions as a result of SB 261.

Potential Pressures

The largest item specific to DPHHS included in the potential pressures category is that of an expanded pre-K (4-year-old) education system, included at a level requested by the executive during the 2015 Legislature. The result is a $25 million potential pressure, on top of the $6 million included in the current service level.

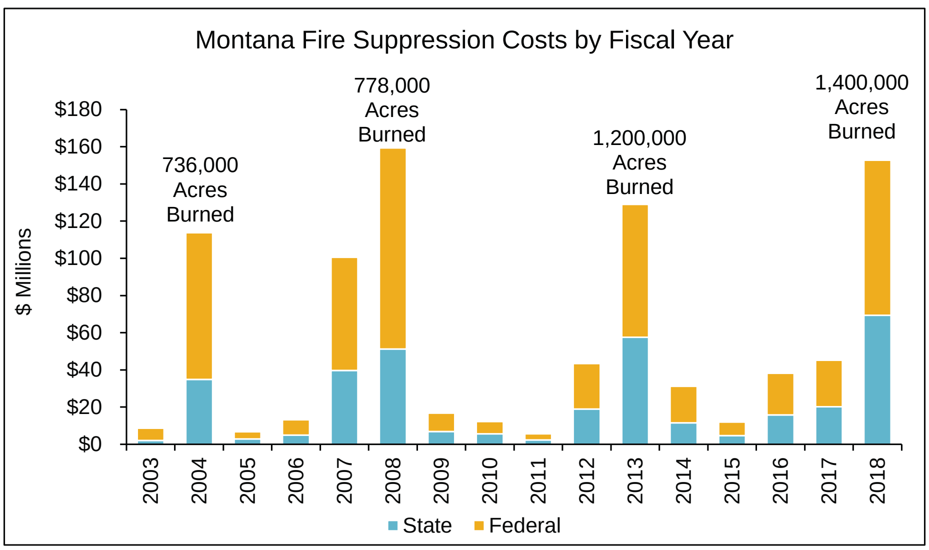
Provider rates were reduced in the interim, but have been included at the previous level in the Medicaid caseload adjustment. However, a potential pressure exists for further increases, and a 1% increase could cost almost $10 million over the 2021 biennium.

Section C: Natural Resources

Wildland Fire Fund

The summer of 2017 was the most expensive fire season in Montana's history. As of April, FY 2018 total fire costs are anticipated to be $69.3 million expended from the fire suppression fund and an additional $11.1 expended from the Governor's general fund appropriation for emergencies. By the end of September, when changes in weather patterns aided in the control of most fires, total acres burned were estimated at about 1.4 million.

The chart shows a history of state fire suppression expenditures since FY 2003, yellow represents federal reimbursements to the state.



To put this in perspective, the fire suppression cost for FY 2018 represents 3.4% of anticipated general fund revenues for the fiscal year. By comparison, in the last fifteen years only FY 2013 came close to this level at 2.8%. Three other fiscal years—2004, 2007, and 2008—consumed 2.5%, 2.2%, and 2.6% of the general fund revenue respectively. Ten of the last fifteen years could be considered mild by comparison with less than 1.0% of the general fund revenue consumed in fire suppression.

Sources of funding for fire suppression include the fire suppression fund, the Governor's appropriation for emergency and disasters, and federal reimbursements. Should these sources not be sufficient, pressure is placed on the general fund in the form of a legislative supplemental appropriation.