MINUTES

MONTANA HOUSE OF REPRESENTATIVES
54th LEGISLATURE - REGULAR SESSION

JOINT SUBCOMMITTEE ON HUMAN SERVICES & AGING
AND
JOINT SUBCOMMITTEE ON INSTITUTIONS AND CULTURAL EDUCATION

Call to Order: By **CHAIRMAN JOHN COBB**, on January 26, 1995, at 8:00 a.m.

ROLL CALL

Joint Subcomittee on Human Services & Aging
Members Present:

Rep. John Cobb, Chairman (R)
Sen. Charles "Chuck" Swysgood, Vice Chairman (R)
Rep. Beverly Barnhart (D)
Sen. James H. "Jim" Burnett (R)
Rep. Betty Lou Kasten (R)
Sen. John "J.D." Lynch (D)

Joint Subcommittee on Institutions and Cultural Education
Members Present:

Rep. Marjorie I. Fisher, Chairperson (R)
Rep. Red Menahan (D)
Rep. Steve Vick (R)
Sen. Larry Tveit, Vice Chairman (R)
Sen. Gary Aklestad (R)
Sen. Mignon Waterman (D)

Members Excused: none

Members Absent: none

Staff Present: Lisa Smith, Legislative Fiscal Analyst
Lois Steinbeck, Legislative Fiscal Analyst
Connie Huckins, Office of Budget & Program Planning
Douglas Schmitz, Office of Budget & Program Planning
Ann Boden, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing: Proposed Provider Rate Increases
Executive Action: None

{Tape: 1; Side: A; Approx. Counter: 000; Comments: This meeting was recorded on two 60-minute audiocassettes.}

HEARING ON
PROPOSED PROVIDER RATE INCREASES

Informational Testimony:

Ms. Lois Steinbeck, Legislative Fiscal Analyst (LFA), distributed two reports regarding human service provider rates. **EXHIBITS 1 and 2** The Legislative Finance Committee has adopted the recommendations contained in the Human Service Provider Rates report (Exhibit 1). **Ms. Steinbeck** reviewed the contents of the updated report, noting that 28.9% of the general fund expenditures requested for the coming biennium are for human services-related costs. She explained that there are two issues before the subcommittees: the working group recommendations and the executive budget recommendations. She stated both the Institutions Subcommittee and the Human Services Subcommittee would have to vote on rate increases. She pointed out that the working group had not been directed to consider whether existing rates or the rate structures paid to providers were adequate; it was only geared towards developing a methodology for the budgeting process.

CHAIRMAN JOHN COBB explained to the new committee members that issues had arisen due to the fact that some providers get automatic rate increases for Medicaid while others have to go before the Legislature for them. **SEN. MIGNON WATERMAN** added that in some cases the providers would be providing identical services, one with and one without automatic rate increases. It got to the point where it would have been better for some facilities to go out of business and re-contract with the state in order to get more reimbursement.

Ms. Steinbeck then continued with her presentation. She said the executive budget includes a 1.5% rate increase for most human services providers. The report recommendation would supplant what is in the executive budget, if adopted. If the subcommittee accepts the working group recommendations, it would apply a 2.5% increase on selected human services budgets and request that the Office of Budget and Program Planning (OBPP) use this budget methodology to develop the 1999 biennium budget. She pointed out that there would be years when the state would benefit from doing retroactive adjustments, when the Consumer Price Index (CPI) goes down. She pointed out that the CPI is the most straightforward methodology which the working group considered. She pointed out that if the subcommittees adopt the CPI-based methodology, it will make the executive put the price changes for human services in the present law budget. If the executive does not want to fund those price changes, the budget can be altered or other service reductions can be made. She clarified that by adopting this methodology the Legislature isn't necessarily signing on to fund the rate increases in the next biennium.

Several members of the working group then testified. **Mr. Jim Smith, on behalf of the Montana Association for Rehabilitation**

and the Montana Association of Homes and Services for Children, urged the development of some methodology that accurately and consistently reflects the impact of inflation or deflation on the providers. He cautioned that the important thing isn't a percentage or dollar amount, it is the development of a methodology for determining a current level budget for all the providers which will be consistent across state agency lines and which treats all the providers equitably as well as accounting for inflation. He pointed out that the amount of funding appropriated is of importance to the quality of service and the people and communities who depend on it.

Mr. Wallace Melcher, President and CEO of Helena Industries, Inc., testified. Helena Industries is an organization that serves persons with disabilities in the areas of vocational training and independent living. The state of Montana is the sole purchaser of his organization's services. As a member of the working group and on behalf of the Montana Association for Rehabilitation, he heartily endorsed the report recommendation. He added that while the 1.5% increase in the executive budget may be a little too small, the fact that the increase was included is a positive indication that the Governor is aware of their battle with increasing costs and is concerned about the quality of services provided. He stressed that it is critical for providers of mandatory state services that consistent consideration be given to rises in costs that are based on economic factors. How well the inflationary adjustments maintain the quality and viability of services depends on an adequate base funding level.

Mr. Joe Roberts, representing the Advocacy Group for the Developmentally Disabled, then spoke. He said the "South Report" (Exhibit 1) highlights the fundamental unfairness which has developed. Contract services historically have not received an increase in the executive budget, while the state agencies performing the same or very similar functions had automatic increases built into their budgets. In the big picture, he said this is an issue between the executive and the Legislature. He emphasized that accepting the recommendation would not remove the Legislature's ability to make budget adjustments. The executive would become the one who would have to find the revenue to fund the increases instead of the Legislature.

Ms. Jani McCall, Executive Director of Youth Dynamics, a therapeutic foster care and family services provider and a member of the working group, then testified. She added that she is a member of the Association for Homes and Services for Children and serves on the State Family Services Advisory Council as well. She rose in support of using the CPI methodology. She reviewed how therapeutic foster care and regular foster care providers will be enabled, using the CPI methodology, to pass through funding increases to these families.

Ms. McCall then reviewed the outcome data on 117 youth. These youth stayed in the therapeutic foster care setting on average

for a year to a year and a half. While 48% of the children entered the program from psychiatric facilities, correctional facilities and residential treatment centers, after they left the program 73% went back to a less restrictive setting. In closing she urged the committees' acceptance of the recommendation of the working group.

{Tape: 1; Side: B; Approx. Counter: 000; Comments: n/a.}

Mr. John Wilkinson, President of the Montana Association of Homes and Services for Children, a working group member and the Administrator of the Intermountain Childrens' Home, then spoke. He said the proposal can do a lot to prevent lobbying for rate increases. He said a more accurate term for what was being called rate increases would be inflationary adjustments. He pointed out that 80% of his budget is for personal services while 60-75% of his revenue comes from fees for services. Tying those amounts to the CPI would enable his employees to retain their purchasing power.

Regarding outcomes, the Intermountain Children's Home works with 32 seriously emotionally disturbed (SED) children from throughout the state. Two years after discharge, 91% of their children have experienced one move or less, are living in the community and are receiving a low to moderate level of services. In contrast, before these children came to them they had experienced anywhere from seven to 38 moves. After four years they found that 86% of the children had experienced one move or less. He stressed the need to seriously consider adopting a methodology for adjusting rates for inflation, although this does not account for such extraordinary increases as have been experienced in prior years in medical health care, liability insurance and workers compensation costs.

Questions:

SEN. WATERMAN asked if the recommended methodology was adopted with a 2.5% increase, would any base year percentage adjustments have to be taken care of through the supplemental process, or would the adjustments be reflected in the base. **Ms. Steinbeck** said the supplemental process would not be used because the adjustments would be in the base. **SEN. WATERMAN** wanted to know if the Legislature would have any input in that process. **Ms. Steinbeck** said this could be an option of the Legislature, to consider the increment change to the base. Decreases would be incorporated into the base automatically as well.

SEN. WATERMAN wanted to know if the executive had used the same criteria for who was included in the provider rate increases as the working group had. **Ms. Connie Huckins, OBPP**, said the same criteria was not used. The executive recommendation for a provider rate increase for childrens' daycare services was not included in the working group's recommendation. She believed this was the only case where a provider was not included.

REP. MENAHAN expressed concern about which employees would be receiving salary increases as a result of the rate increases and said he was opposed to across-the-board raises. **Ms. Steinbeck** pointed out that rate increases would not automatically result in pay increases for staff. In response to **SEN. WATERMAN, Ms. Steinbeck** said minimum salary levels can be specified by the Legislature for independent contractors, although exact pay levels cannot be dictated.

Mr. Melcher clarified how inflationary and other budget increases were utilized by the providers. Just because 80% of a provider's budget is for personal services does not mean that when an appropriation is received a corresponding wage increase occurs, especially when the state is their sole revenue source. Regarding the wages of consumers of services, the wages paid to those individuals do not come from the state but are from service contracts and profits from commodity production.

Mr. Smith pointed out that the recommendation regarding inflationary adjustment was designed to deal with the 20% of providers' budgets which are non-personnel costs. **Mr. Wilkinson** added that one of the first places additional money goes is to help with health care benefit costs, which help offset the low wages received by some staff.

Ms. Steinbeck distributed a handout which compares some of the human services provider rate increases which are in the executive budget to the working group recommendation. **EXHIBIT 3** In order to implement the working group recommendation the Legislature will need $1.7 million more in general fund and about $375,000 in federal funds. She pointed out that the child care rate increase is not included on the table because she wanted the comparison to be more equal. Child care is not included because federal regulations specify the level of reimbursement that states must offer and they are still researching the sanctions that go along with that. She is not sure if the CPI methodology will fulfill that federal requirement. She also pointed out that the working group recommendation for visual services and vocational rehabilitation is lower than the executive budget because the latter includes tuition increases.

REP. BEVERLY BARNHART was told that therapeutic group homes receive Medicaid funding, which is why therapeutic group care and day care were not inflated. **Ms. Steinbeck** said the working group recommended an exception for several Medicaid services including therapeutic group homes because the Department of Social and Rehabilitation Services (SRS) didn't look at fixed fee Medicaid services. Therapeutic group homes can be reimbursed theoretically either 100% from the general fund or from Medicaid funds. It wouldn't make any sense to have a general fund rate that was different than a Medicaid rate. This is why the working group recommended the executive budget not include a provider rate increase. The Domestic Violence Coalition, which was a member of

the working group, did not endorse the criteria of the selection of services.

Ms. Jan Shaw, Executive Director of Montana Youth Homes, addressed the zero rate for therapeutic youth homes. Their homes receive Medicaid funding as well as funds from the Department of Family Services (DFS) and Foster Care. They would like to support an increase for therapeutic foster homes.

Proponents' testimony:

Mr. Dick Keen, Administrator of the Great Falls Pre-Release Center, rose in support of accepting a methodology.

Mr. Charlie Trott, President of the Montana Association of Independent Disability Services Providers, spoke. The entire budget of their service providers was included, so personal services as well as operations are included in the methodology. They are not in a position to separate these parts out.

Mr. Joe Matthews, Administrator of the Vocational Rehabilitation Division, SRS, explained about the tuition increase. They use the universities and vo-techs as providers of tuition services to many of their clients with disabilities. In estimating their budget, they looked at what the actual cost increases were in tuition, which is why the higher number appears in the executive budget. He asked the committee to take into consideration that the tuition issue is a reflection of an actual increase and the CPI may not be an appropriate way to measure that.

Ms. Jenny Knight, Montana Resource and Referral Network, rose in support of acceptance of the provider rate increase. They work with families oftentimes whose daycare is paid for by the state and they are finding that their options in choosing quality child care are limited because they cannot afford to pay the difference between what the state pays and the provider charges. She stressed the importance of quality daycare and added that the providers need to make a working wage so they can afford to reinvest in their programs.

Ms. Julie Bullard, on behalf of the Advisory Board for Kid College Childcare Center and as State President for the Montana Association for the Education of Young Children, urged the Legislators to at least fund childcare at the 75th percentile of market rate. She pointed out that usually the business determines what it will charge the state but in the case of childcare providers, the state determines what they will pay. Forty percent of childcare providers go out of business every year due in part to the fact that they operate on a shoestring budget. Because of this and the fact the state pays so much less than what childcare providers can get in the community, 31% of the providers will not accept state-paid children. Fifty percent of those that do accept these children charge the parents extra. She stressed the importance of quality childcare. For every

dollar spent on quality care on young children, $5 is saved on these children when they reach school age and adolescence. She pointed out in conclusion that the federal government requires they fund childcare at the 75th percentile. Currently they receive about $6 million in federal funds that they would be in jeopardy of losing if the Legislature does not approve this level of funding.

Ms. Marci Mackey, Director of the Community Day Care and Enrichment Center in Billings, shared some letters and artwork with the subcommittee members which the children had prepared for the Legislature. She also submitted written testimony. **EXHIBIT 4** In addition to overseeing the daily care of 92 children, she is the chairperson for the Citizens for Quality Childcare in Billings and a board member for the Montana Child Care Association. The main thing that is affected by the reduced amount of revenue received for state-paid children is staff wages, which average less than $5 per hour. The other parents end up offsetting costs through paying a higher tuition.

Ms. Janet Croy, President of the Montana Child Care Association and a board member of the National Child Care Association, spoke. She distributed an assumption of what it actually looks like to produce care for state-paid children **(EXHIBIT 5)** as well as a copy of her testimony. **EXHIBIT 6** In response to **REP. MENAHAN,** she said that state-paid children are those whose parents are in a jobs training program or low-income single heads of households on block grant money who have jobs. These parents are being asked to come up with an extra $60-$150 per month, which puts many of these parents into a "negative cash flow" in their own budgets, and sometimes results in them going back on welfare. She urged support for the 75th percentile rate for reimbursement. The increase would amount to from ten to thirty cents per hour; the providers have not had a rate increase in over three years. She pointed out that Montana childcare workers receive wages well below the national average.

Ms. Ann Lynch, a daycare provider from Helena and President of the Helena Childcare Association and a board member of the Montana Childcare Association, then spoke. She works an 11-hour day and after costs are deducted, she makes about $2.50 per hour. Providers cannot continue to stay in business let alone improve services while subsidizing the current state rates. In closing she rose in support of raising the rate to the 75th percentile.

Ms. JeNae Lay, owner and operator of a registered childcare business in Helena, then testified. **EXHIBIT 7**

{Tape: 2; Side: a; Approx. Counter: 000; Comments: n/a.}

Ms. Mary Alice Cook, representing the Advocates for Montana's Children, spoke. Her organization has presented the subcommittee members with their Blueprint For a Future Worthy of Montana's Children, which strongly supports raising Montana's reimbursement

rate for state-paid SRS and DFS child daycare to the 75th percentile of the current market rate as required by federal regulations. The proposed executive budget does not comply with federal requirements regarding the use of federal daycare funds.

Ms. Jeanette Thomas, Director of Rocky Mountain Preschool and Daycare, testified as a proponent of the rate increase for state-paid daycare children. **EXHIBIT 8**

Mr. Jim Smith said he has told the Big Brothers and Sisters programs that the working group was developing a methodology that would not include them, because they are not a mandated program. He communicated that the Big Brothers and Sisters would be happy to live with whatever decisions the Legislature makes. It is fine with them to be kept as a line-item in the budget and to continue funding as in the past.

Ms. Lucille Pope, Montana Coalition Against Domestic Violence, then spoke up in support of provider rate increases. They feel the baseline for Domestic Violence is not yet adequate to provide the services the communities are asking of them. Of the eleven shelters and eight Safe Home Programs in the state, there still remain 15 counties without services. The baseline budgets for 20 of the programs are currently being funded through DFS. The greatest shortfall is occurring in shelter services. The $111,000 available from the general fund is enough to pay the cost of running just one of the eleven shelter programs. Even when Federal Board of Crime Control dollars are included, the total amount of money available is $650,000. All the additional dollars are being raised locally by the programs. She pointed out that the dollars spent toward domestic violence go a very long way. They have over 400 trained volunteers, they raise a lot of local money and they have staff that volunteers time above and beyond what they are paid for.

Ms. Pope described how budget shortfalls are affecting their operations. In one shelter, the children's programs have been cut completely; in another, the children's program will have to be discontinued. The shortfall in their budget this year is just under $100,000. She said that still missing from their services are support groups for women, peer counseling, outreach service, children services and education.

Ms. Kate Cholewa, Montana Women's Lobby, spoke up in support of the work the Montana Coalition Against Domestic Violence has done. She said it is wrong to exploit the fact that these people are so dedicated that they will work full-time for part-time wages in order to do the work they believe in.

Mr. Jim Moran, President and CEO of the Great Falls Capital Corporation and Co-chair of the Montana Passenger Carrier Association, then spoke. Their concern lies with the nonemergency wheelchair transport companies in the state which provide transportation for Medicaid patients. **EXHIBIT 9**

Questions:

In response to **REP. BARNHART, Ms. Croy** said that if there was a rate increase for state-paid childcare, more providers would be willing to take those children and more parents would be able to put their children in those settings. **REP. MENAHAN** asked several questions regarding the eligibility guidelines for receiving subsidy.

REP. BARNHART wanted to know if there was any funding provided for individuals who might take victims of domestic abuse into their homes in those areas where there are no shelters. **Ms. Pope** said there are eight areas that have Safe Home Programs which sometimes involve private homes, but more often motels are used. Different arrangements exist in different areas but there may be some help with the increased insurance costs of providing a home for this purpose.

Discussion took place regarding how to best address the budgets which the Institutions Subcommittee and the Human Services Subcommittee had heard jointly.

The subcommittee members received copies of a letter from **Richard** and **Rita Reynolds** in opposition to the closure of Eastmont. **EXHIBIT 10**

ADJOURNMENT

Adjournment: 11:10 a.m.

Notes Read 6/95

REP. MARJORIE I. FISHER, Chairman

REP. JOHN COBB, Chairman

for DEBBIE ROSTOCKI, Recording Secretary

Note: These minutes were proofread by Lois Steinbeck, LFA.

MIF/JC/dr

JC/dr

HUMAN SERVICES AND AGING

Joint Appropriations Subcommittee

ROLL CALL DATE 1-26-95

NAME	PRESENT	ABSENT	EXCUSED
Rep. John Cobb, Chairman	X		
Rep. Beverly Barnhart	X		
Rep. Betty Lou Kasten	X		
Sen. Chuck Swysgood, Vice Chairman	X		
Sen. J.D. Lynch	X		
Sen. Jim Burnett	X		

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Louis, Doug, Connie

INSTITUTIONS

Joint Appropriations Subcommittee

ROLL CALL DATE 1-26-95

NAME	PRESENT	ABSENT	EXCUSED
Rep. Marj Fisher, Chairman	X		
Rep. Red Menahan	X		
Rep. Steve Vick	X		
Sen. Larry Tveit, Vice Chairman	X		
Sen. Gary Aklestad	X		
Sen. Mignon Waterman	X		

Mary LaFord - OBPP
Lisa Smith - LFA

EXHIBIT EXH 1
DATE 1-26-95

HUMAN SERVICE PROVIDER RATES

A Report Prepared for the

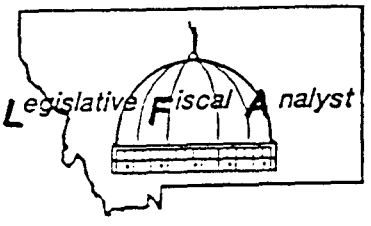
Legislative Finance Committee

by

Carroll South

Senior Fiscal Analyst

November 20, 1992



EXECUTIVE SUMMARY

In fiscal 1993, $357.3 million ($105.4 million general fund) has been appropriated to three state agencies to purchase services from private contractors providing mental health, developmental disabilities (DD), foster care, day care, medical, and other human services. The general fund appropriated for this purpose is the third largest component of the state general fund budget, accounting for 19.8 percent of total anticipated general fund expenditures in fiscal 1993, and is more than double the amount appropriated for operations and equipment for all executive, legislative, and judicial agencies. More than 77 percent of the total funds appropriated to purchase human services will be paid to providers participating in the medicaid and state medical programs.

General fund contracted to purchase human services from private providers has increased as a percentage of total general fund expenditures, primarily due to rapid growth in medicaid expenditures, which grew from 9.7 percent of total general fund expenditures in fiscal 1989 to an estimated 12.9 percent of the total in fiscal 1993. Expenditures for primary care medicaid (hospitals, physicians, dentists, etc.,) increased more than 20 percent per year from fiscal years 1989 through 1992. Also contributing to growth in provider payments is the continued down-sizing of state facilities, which results in a shift of funds from state agency operational budgets to private providers.

Using a variety of methodologies, state agencies establish the rates they pay for most services purchased from providers. Although some rates set by the agencies are not increased without specific legislative authorizations, others may increase as the providers' allowable costs increase. This dual rate-setting process may be flawed because: 1) some providers receive rate increases without legislative authorization, while others must defend their rate increases to the legislature; 2) it may limit the legislature's ability to establish its own priorities for rate increases; and 3) it may reduce the legislature's ability to control costs by denying it the opportunity to approve certain rate increases.

The Office of Budget and Program Planning (OBPP) and the Legislative Fiscal Analyst (LFA) utilize a well-defined "current level" budgeting process to develop state agency operational budgets. The process provides for budgeting inflationary increases to reflect agencies' estimated cost of providing current service levels during the next biennium. However, no such system exists for establishing contracted service budgets for agencies that purchase human services from private contractors. The current level budgeting process makes no allowance for increased costs the providers will incur in providing the same level of service to the agencies during the next biennium.

While state agencies are required to request "budget modifications" only to expand programs, increase service levels, or increase staff, nearly all provider rate increases requested by agencies are considered "budget modifications", even if the increase is intended to cover the same inflationary costs included in state agency current level budgets. The requirement that most provider rate increases be

budgeted as modifications, rather than current level adjustments, may be flawed because: 1) the executive may not request rate increases to cover inflation if the increases are perceived as "expansions" of state government; and 2) the public may be given the misleading impression that government is expanding when the legislature approves increases intended to cover only the increased costs incurred for providing the same service levels.

Moreover, because there is no current level budgeting process for human service provider contracts, the OBPP and LFA perform no analysis of existing rates and costs and may not be able to provide the legislature with data it needs if it wishes to consider rate increases. The lack of a current level budgeting process for provider contracts may result in: 1) legislative approval of across-the-board provider rate increases that may have little relationship to increased costs; 2) different provider groups receiving different increases, not because one's costs will increase more than the others, but because different appropriations subcommittees considered the increases; and 3) fixed cost increases "eating" up most or all of any rate increase, leaving little, if any, funding to increase salaries of provider employees.

The legislature may wish to consider the development of a current level budgeting process for appropriate human service provider contracts that is similar to the process now used to develop state agency operational budgets. The process could be designed to develop aggregate expenditure levels for provider contracts by utilizing many of the same inflation factors used for state agency budget development. Non-state provider revenue sources (eg., resident room and board payments and fees-for-service from non-state entities) would be estimated and applied against the aggregate funding level to determine the state's share of the increased costs.

PURPOSE

The purpose of this report is to provide the Legislative Finance Committee information regarding:

1) the amounts spent by the state to purchase services from different types of human services providers;

2) methods used by state agencies to set human service provider rates;

3) methodologies used by the OBPP and LFA to develop budgets for human service provider contracts prior to legislative sessions; and

4) options that may provide a more systematic way of budgeting for and funding rate increases for human service providers.

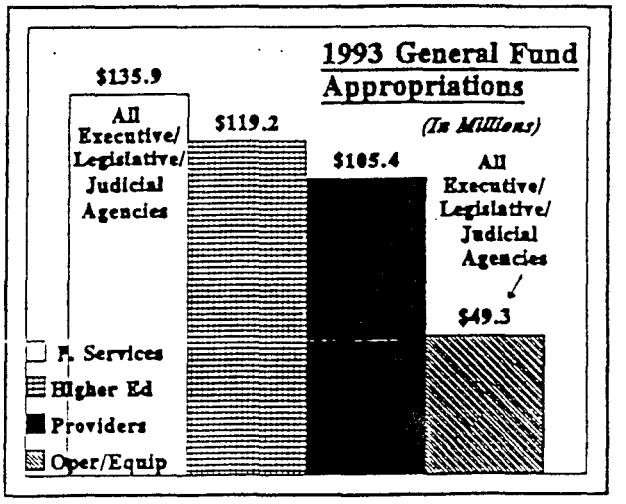
INTRODUCTION

The state contracts with many provider types to deliver human services, such as developmental disabilities, mental health, inmate pre-release, and medical services. The legislature appropriated $357.3 million ($105.4 million general fund) in fiscal 1993 to purchase these services as shown in Table 1.

TABLE 1
Fiscal 1993 Provider Appropriations

Service Type	Total Funds	General Fund	% Of Total
Medicaid (A)(B)	$271,271,827	$66,745,032	75.91%
Developmental Disabilities	33,458,637	13,198,378	9.36%
Foster Care (A)	17,922,807	11,271,024	5.02%
Vocational Rehabilitation	6,986,033	1,256,964	1.96%
Day Care	6,175,603	979,776	1.73%
Mental Health	5,440,800	4,419,934	1.52%
Aging	4,764,639	643,246	1.33%
State Medical	4,384,000	4,384,000	1.23%
Welfare Work/Training	3,335,894	1,041,505	0.93%
Chemical Dependency	2,354,476	213,300	0.66%
Inmate Pre-release	1,246,867	1,246,867	0.35%
Total	$357,341,583	$105,400,026	100.00%

(A) Includes anticipated supplemental appropriations
(B) Excludes state institutions/medicare buy-in & Indian Health Care pass-throughs



General fund appropriated to contract with human services providers is the third largest component of the state general fund budget. The $105.4 million general fund appropriated for this purpose in fiscal 1993 accounts for 19.8 percent of total anticipated general fund expenditures and is only $13.8 million less than the general fund appropriated to fund all higher education agencies. While fiscal 1993 general fund appropriations for human service provider contracts are $30.5 million less than general fund personal services appropriations to all executive, legislative, and judicial agencies, they are more than double the amount appropriated to these agencies for operations and equipment.

In recent years, expenditures for contracts with human services providers have increased as a percentage of total general fund expenditures, largely due to growth in medicaid expenditures. General fund expenditures for medicaid increased from 9.7 percent of total general fund expenditures in fiscal 1989 to an estimated 12.9 percent of the total in fiscal 1993. Expenditures for primary care medicaid services (hospitals, physicians, dentists, etc.) increased 20.8 percent from fiscal 1989 to fiscal 1990; 22.7 percent from fiscal 1990 to fiscal 1991; and 28.1 percent from fiscal 1991 to fiscal 1992. These large increases were caused by increases in costs per unit of service, caseloads, and service utilization.

Another factor contributing to growth in human services provider payments is the continuing down-sizing of state institutions. The 1989 and 1991 legislatures approved the transfer of 84 residents from the Montana Development Center to community-based facilities. This trend is likely to continue in the near future because: 1) the January 1992 special legislative session authorized the transfer of $1.0 million in personal services funding from the Montana State Hospital (MSH) to community-based services to comply with a court-ordered plan to downsize MSH; and 2) the executive plans to request that the 1993 legislature approve a plan to increase community-based corrections facilities, rather than constructing additional housing units already authorized at Montana State Prison.

While the state's overall costs may not be reduced significantly when residents move from state to private facilities, the expenditure mixture changes as funds are shifted from state agencies to private providers. With increased numbers of individuals residing in community, rather than state facilities, the contracted expenditure base becomes larger and rate increases granted the providers will cost more and play a bigger role in the budget-balancing process.

As the private sector expands to supply additional services to the state, they may become more dependent upon systematic review and adjustments of the rates they receive. When the state is only one of many customers purchasing services from a provider, state reimbursement rates may not have a major impact on the provider's revenues because costs may be shifted to other customers. However, if state reimbursement provides most, or all, of a provider's revenues, state rates have a critical impact on the provider's operations and survival. If state rates do not keep pace with these providers' increased costs, they may be forced to reduce service levels because there is no third party to whom the facilities can shift costs. If providers fail because state rates have not kept pace with their costs, the state will still be required to house, treat, and care for those clients for whom it is responsible.

AGENCY RATE SETTING METHODOLOGIES

Corrections & Human Services

Mental health centers - The Department of Corrections and Human Services (DCHS) contracts with mental health centers on a fee-for-service basis to provide services to persons diagnosed as seriously mentally ill. Many of these individuals may have been hospitalized at MSH or would be at risk of hospitalization if they did not receive services from the centers. The agency also used a fee-for-service rate to purchase services for persons diagnosed with a non-serious mental illness until fiscal 1992, at which time it began allocating funds to each of the five regions to provide services to these individuals.

In general, the rates take into account revenues collected by the centers from persons with serious mental illness and the number of service units provided to this group paid for by medicaid. Each center is reimbursed based on: 1) its individual fixed costs, at the median rate of all centers for its variable costs; and 2) its net rate adjusted by the median revenue collections from persons with serious mental illness of all centers. Other adjustments may also be made as necessary.

Although DCHS has not requested funding for a rate increase for mental health centers in its 1995 biennium budget submitted to OBPP, it plans to increase rates paid the centers during the next biennium using the established rate-setting methodology. If rates are increased without additional funding, the agency will be forced to purchase fewer services for the seriously mentally ill or reduce the funding allocation for services delivered to persons who are not seriously mentally ill.

Pre-release centers - DCHS also contracts with pre-release centers to house and supervise prison inmates nearing the completion of their sentences. From fiscal 1985 through 1992, each center was paid a different rate based on its costs. To ensure that the facilities' fixed costs were covered, each center's daily rate increased when fewer inmates were housed in the facilities. Beginning in fiscal 1993, the three centers each receive the same rate, which is no longer adjusted for changes in population. A fourth pre-release center, opened in fiscal 1993, will be paid at a commensurate rate, effective fiscal 1994.

DCHS has not requested funding for a rate increase for pre-release centers in its 1995 biennium budget submitted to OBPP and does not plan to increase the rates during the next biennium. However, the executive does plan to ask the 1993 legislature to expand community-based correction facilities, rather than expanding the prison at Deer Lodge.

Family Services

Foster care - The Department of Family Services (DFS) contracts with several different provider types to care for foster children and adolescents. The 1987 legislature, concerned about inequitable reimbursement for foster care services, instructed the agency to develop a "model" rate structure for shelter care, group homes, and residential treatment facilities. The 1989 legislature appropriated $3.3 million to bring these providers up to 100 percent of the model rate in fiscal 1991 and increased family foster care rates 2.0 percent each year of the 1991 biennium. The 1991 legislature increased funding for foster care rates by 4.5 percent each year of the 1993 biennium.

Except for rates paid inpatient residential psychiatric facilities (which are covered under the state medicaid program), the agency increases foster care rates only when additional funding is authorized by the legislature. DFS has not requested funding for a rate increase for foster care providers in its 1995 biennium budget submitted to OBPP and does not plan to increase the rates during the next biennium.

Day care - DFS also contracts for day care services and sets the day care rates providers receive. There are three levels of day care services for which the agency establishes rates: 1) family day care; 2) group care; and 3) day care centers. The agency increases the rates only when the legislature authorizes additional funding. The 1989 legislature authorized increases of $0.50 per day in 1990 and $1.00 per day in 1991. The 1991 legislature authorized fiscal 1992 increases of $1.00 per day for family and group providers and $0.50 per day for day care centers. In fiscal 1993, family providers were authorized an additional $0.75 per day and group providers an additional $0.25 per day. DFS has not requested funding for a rate increase for day care providers in its 1995 biennium budget submitted to OBPP and does not plan to increase the rates during the next biennium.

Social & Rehabilitation Services

Developmental disabilities - The Department of Social and Rehabilitation Services (SRS) contracts with approximately 50 organizations to provide community-based services to an estimated 3,000 persons with developmental disabilities. Services purchased include residential services, supported employment, and vocational services. While DD providers of some services are paid on a fee-for-service basis, most are paid based on the actual costs they incur, subject to an upper limit. The fee-for-service rates were established by the agency and providers several years ago and are increased only when the legislature appropriates additional funding for that purpose. Cost-based rates are capped at the previous year's rate unless the legislature appropriates additional funding.

The 1987 and 1989 legislatures appropriated funding for annual rate increases of 2.0 percent for DD services during the 1989 and 1991 biennia. The 1991 legislature appropriated funding for annual rate increases of 4.5 percent during the 1993 biennia. SRS has not requested funding for a rate increase for DD providers in its 1995 biennium budget submitted to OBPP and does not plan to increase the rates during the next biennium.

Vocational rehabilitation/visual services - SRS also purchases services from private providers for persons needing vocational rehabilitation and visual services. While this program sets the rates paid to some providers, it pays other providers their billable rates. The program uses the medicaid fee schedule when purchasing medical services if the provider will accept the medicaid rate. The program also purchases educational services from the university units, paying tuition and fees set by the university system.

The 1989 legislature appropriated funding for annual rate increases of 2.0 percent for these providers during the 1991 biennium and the 1991 legislature appropriated funding for annual rate increases of 4.5 percent during the 1993 biennium. Although SRS has not requested funding to increase these provider rates in its 1995 biennium budget submitted to OBPP, many rates may still increase because the program purchases goods and services from providers who set their own rates. When rates increase without additional funding, the program is forced to reduce the number of services it purchases.

Medicaid/state medical - Although the medicaid program is operated under federal law, SRS sets the rates paid medicaid providers and uses the same rates in the state medical program. The state will spend approximately $229.9 million ($57.4 million general fund) in fiscal 1992 to purchase services from medicaid providers. Table 2 shows estimated fiscal 1992 medicaid expenditures by service type. State institutions reimbursement, Indian Health Care pass-through and medicare buy-in expenditures are not included.

TABLE 2
Fiscal 1992 Estimated Medicaid Expenditures

Service Type	Total Funds	General Fund	% Of Total
Nursing Facilities	$67,091,926	$18,980,306	29.19%
Inpatient Hospital	51,893,589	(A) 7,089,767	22.58%
Physicians	26,024,419	7,362,308	11.32%
Miscellaneous (B)	25,333,649	7,166,889	11.02%
Outpatient Hospital	15,774,920	4,462,725	6.86%
Prescription Drugs	15,159,663	4,288,669	6.60%
Inpatient Psychiatric	14,464,085	4,091,890	6.29%
Waiver (C)	5,835,134	1,650,759	2.54%
Dental	4,160,314	1,176,953	1.81%
Other Practitioners (D)	4,125,501	1,167,104	1.79%
Total	$229,863,200	$57,437,370	100.00%

(A) Does not include $7.6 million state special revenue used in lieu of general fund.
(B) Includes mental health, personal care, medical equipment, and case management.
(C) Provides home-based services to persons who otherwise might be admitted to nursing facilities.
(D) Non-physician practitioners, such as psychologists, social workers, and optometrists.

The different methodologies SRS uses to set medicaid rates are discussed below.

Fee-based services - The agency establishes fee schedules by rule for nearly all services it purchases from individual providers, such as physicians, dentists, psychologists, and pharmacists dispensing fees. In many cases, the rules state that the rate will not be increased without specific legislative authorization. The last general rate increase for this group of providers was a 2.0 percent annual increase in the 1991 biennium authorized by the 1989 legislature. However, the 1991 legislature authorized significant increases in three types of services provided by physicians. SRS has not requested funding for a rate increase for this group of providers in its 1995 biennium budget submitted to OBPP and does not plan to increase the rates during the biennium.

Negotiated contracts - Several medicaid services are purchased through negotiated contracts. In some instances, such as personal care and waiver services, the agency may issue Requests For Proposals (RFP) and chose a provider from those submitting a proposal. The agency may negotiate with the successful bidder to lower the proposed rates or make other adjustments if necessary. Services from mental health centers are purchased at contracted rates that reflect the allowable costs of the five centers. Rate increases for these providers will be part of the 1995 biennium current level medicaid budget.

Inpatient medical hospital services - Inpatient medical hospital services are reimbursed based on diagnostic related groups (DRG's) that tie reimbursable costs to the diagnosis of the patient. However, federal law requires that the per diem

rates paid medical hospitals be "reasonable and adequate." The 1991 legislature appropriated funding for a 5.62 percent increase in inpatient hospital rates, effective October, 1992, but, at the request of the executive, the January 1992 special session eliminated funding for the increase. Based on a recent study of inpatient medical hospital costs conducted by a contracted firm, SRS has requested additional funding in its 1995 biennium budget to increase inpatient medical hospital rates.

Psychiatric/outpatient/prescription drugs - All inpatient psychiatric hospital and residential services, prescriptions drugs (excluding the dispensing fee paid the pharmacist), and most outpatient hospital services are reimbursed on an "allowable" cost basis. These rates will increase during the 1995 biennium without legislative authorization if allowable costs increase.

Nursing facilities - Prior to the 1991 legislative session, the agency commissioned a study that determined fiscal 1991 medicaid rates paid nursing facilities were approximately $8.57 per day less than the average cost of providing nursing care. The 1991 legislature appropriated $22.2 million ($6.2 million general fund) in additional funding during the 1993 biennium to phase in a re-basing of medicaid nursing facility rates. The re-basing was intended to bring medicaid rates more in line with actual costs by using more recent nursing facility cost data.

The agency used the following methodology to set nursing facility rates in fiscal 1993. Each facility's base period was its cost report period of at least six months with a fiscal year ending between January 1, 1991 and December 31, 1991. Nursing facility base period costs were divided into three components: 1) operating costs, which include administrative, laundry and housekeeping; 2) direct nursing personnel costs, which include salaries and benefits for registered nurses, licensed practical nurses, and nurses aids; and 3) property costs, which include building and equipment depreciation, building and equipment leases, and certain interest costs.

1) The operating component of each nursing facility's rate is the lesser of: a) its allowable operating costs for the base period inflated to the current year using McGraw-Hill nursing facility inflation indices; or b) 110 percent of the median per bed day operating costs for all licensed nursing beds in the state. If the facility's inflated base operating costs are less than 110 percent of the median, an incentive allowance is granted equal to the lesser of: a) 5 percent of the median operating costs; or b) 40 percent of the difference between the facility's inflated operating cost and the median operating costs.

2) The direct nursing component of each nursing facility's rate is the lesser of: a) the facility's composite nursing wage rate in its base period inflated to the current year using McGraw-Hill nursing facility inflation indices times the facilities most recent average patient assessment score; or b) 125 percent of the median average wage per bed day times the facilities most recent average patient assessment score. (Patient assessment scores are used to determine the level of care required by nursing residents in a facility.)

3) Property costs for all facilities are capped at $9.47 per bed day. Rates for individual nursing facilities were calculated as follows.

a) If the facility's base period allowable property costs were less than its fiscal 1992 rate, its property cost component is the lesser of its 1992 rate or $9.47 per bed day.

b) If the facility's base period allowable property costs exceeds its fiscal 1992 rate by more than $0.57 per bed day, its property cost component is its 1992 rate plus $0.57 per bed day.

c) If the facility's base period allowable property costs exceeds its fiscal 1992 rate by $0.57 per bed day or less, its property cost component is its base period allowable costs.

In addition to the limits described above for the operating, direct nursing, and property cost components, a nursing facility's total fiscal 1993 rate may not exceed its total fiscal 1992 rate by more than $6.00 per day.

The range of each facility's fiscal 1992 medicaid rate (the first year of the re-basing approved by the 1991 legislature) was limited to a minimum of 5.5 percent above its fiscal 1991 rate and a maximum of $8.00 per day above its fiscal 1991 rate. SRS has not requested funding for a rate increase for nursing facilities in its 1995 biennium budget submitted to OBPP and does not plan to increase the rates during the next biennium.

EXECUTIVE/LEGISLATIVE BUDGETING

Non-Medicaid Services

Current level budgeting methodology - State law defines a "current level" budget as the "level of funding required to maintain operations and services at the level authorized by the previous legislature, after adjustment for inflation". A well-defined methodology exists to develop state agency "current level" operating budgets. The OBPP and LFA agree on the "base" year, inflation factors, and a personal services "snapshot", reflecting current staffing levels. Increases for inflation automatically become part of agency current level budgets as do increases in workers' compensation, social security, and unemployment; agencies are not required to request or justify these increases. When the legislature reviews state agency current level budgets, they have been increased to reflect the estimated cost of agency operations during the next biennium under current law.

In contrast, current level budgets for contracted human services providers remain at the level established by the previous legislature with no adjustment for inflation. Current funding levels for these contracts are not increased, even though the

providers may incur the same inflation and workers' compensation increases as state agencies during the next biennium. Providers and the agencies with which they contract must request and justify as "budget modifications" the same inflationary increases for providers automatically built into state agency current level budgets. During the last three biennia, nearly all rate increases granted community providers have been considered and appropriated as budget modifications.

Budget modification criteria - State agencies are required to submit budget modification requests only to expand programs, increase service levels, or increase staff. These requests are presented separately from the current level in the Executive Budget, not included in the LFA current level budget, and considered an "expansion" of state government because they expand services and/or staffing levels. The increases are clearly identified in narrative accompanying the appropriations bill throughout the legislative process and are considered to be "growth" above current level. Requiring that all provider rate increases granted to cover increased costs of providing the same level of services be considered and funded as budget modifications may give a misleading impression that state government is expanding when it is not.

Further, requiring all provider rate increases to be considered budget modifications, rather than current level adjustments, may shift the responsibility for funding the increases from the executive to the legislature. State agency current level inflationary increases are included in the Executive Budget, a process that requires the executive to "fund" inflation because the budget must be balanced. However, the executive makes no current level adjustments for provider contracts and is required to fund them only if it requests budget modifications to increase the rates. (The executive did not include rate increases in its 1993 biennium budget and the affected state agencies have not requested increases for the 1995 biennium.) This process forces the legislature to fund rate increases if it chooses to grant them by finding additional revenues, reducing proposed executive spending elsewhere, or reducing the ending fund balance to provide rate increases.

Across-the-board percentage increases - Because the OBPP and LFA do not review funding for provider contracts during the budget development process, the legislature may not have the information it needs to determine appropriate funding levels for provider contracts. During the last three biennia, the legislature approved across-the-board percentage increases to most of these providers, rather than increases based on an analysis of increased costs. Because inflation has not been estimated (as it has for state agencies), the rate increases granted may have had little relationship to increased costs. Additionally, lack of appropriate data may lead to varying percentage increases for different provider groups, not because inflation is greater for one group than another, but because different subcommittees approved the increase.

For example, the 1991 legislature approved 4.5 percent annual increases for DD, vocational rehabilitation, and foster care providers, while providing 2.0 percent annual increases for mental health and pre-release providers. The human services

subcommittee approved 4.5 percent increases, while the institutions subcommittee approved 2.0 percent increases. There is no evidence suggesting that the rate increases approved varied because any provider group's costs were anticipated to increase more than others. Further, during the July 1992 special session, the 2.0 percent increase for mental health centers in fiscal 1993 was eliminated but the other provider rate increases were left intact.

Moreover, even when providers are granted the same percentage rate increase, they may still be treated differently because the increases have not been based on estimates of increased costs. For example, the 1989 legislature approved 2.0 percent annual increases for the mental health and pre-release centers during the 1991 biennium. However, despite the fact that the same state agency contracts with both provider groups and the same subcommittee approved the increases, the conditions under which the rate increases were granted were different for each group. The legislature expressed its intent that the 2.0 percent rate increase granted to mental health centers not be considered part of the current level budget during the 1993 biennium, while imposing no such requirement on pre-release center budgets. This action forced the executive to request a budget modification for funding already built into the mental health center rates.

Private provider pay increases - The legislature has periodically attempted to maintain some relationship between the salary levels of state employees and private employees performing the same work on behalf of the state. The 1985 legislature appropriated additional funding commensurate with state employee salary increases for contracts with mental health centers during the 1987 biennium, and the 1989 legislature did the same for pre-release centers during the 1991 biennium. The 1989 legislature also appropriated an additional $2.5 million to increase DD community-based direct care salaries during the 1991 biennium. Without a current level budgeting methodology for human services provider contracts, the legislature cannot be assured that any relationship between state and private employee salary levels is maintained.

Because providers' fixed cost increases are not estimated and funded in current level budgets, most of any across-the-board percentage increase granted to providers may be required to cover the provider's increased costs and not be available for salary increases. After reviewing a sample of DD provider budgets, SRS staff found that several DD providers will spend from 53 percent to 97 percent of the 4.5 percent rate increase provided them during the 1993 biennium to cover increased workers' compensation and health insurance costs. When the providers' fixed cost increases are funded, there may be little funding left to increase DD direct care workers' salaries. In contrast, a state agency's current level budget contains funding to cover increased operational and payroll costs and additional funding is provided for state employee salary increases.

Medicaid Providers

Medicaid rates can be categorized in two ways: 1) those that increase without legislative authorization; and 2) those that do not. Because the legislature does not control many rates and historically has not limited numbers of recipients and services, the current level budgeting methodology used by the OBPP and LFA for medicaid is more an estimate than a budgeting process. While there is no well-defined process for establishing inflation factors or growth in recipients and services, the OBPP and LFA have agreed to present the 1993 legislature with a joint estimate for the current level medicaid budget.

This joint estimate is agreed to after the OBPP, LFA, and SRS, each using different methodologies, estimate medicaid expenditures for the fiscal year in which the legislature meets. An inflation factor reflecting increases in costs, recipients, and services is then applied to that estimate to generate the current level budget for the next biennium. Because very little data is available for the "base" year when the estimates are made and growth is unpredictable, it is difficult to develop a medicaid budget with any degree of accuracy. If the estimated budget approved by the legislature is inadequate, a supplemental appropriation will be required because the program is an "entitlement".

Current level versus budget modification - The distinction between current and modified level budgets is blurred in the medicaid program, both in terms of rate increases and program expansion. Some providers may receive rate increases for some services in current level and others may not, depending upon how SRS sets the rates. For example, the 1991 legislature approved budget modifications to increase rates for nursing facilities, ambulances, and certain services delivered by physicians. These rates would not have increased without legislative approval and additional funding. However, rates for inpatient psychiatric and outpatient hospital services and certain other services are increased by SRS without legislative authorization because they are either cost-based or established by negotiated contract.

While current level budgets for community-based providers of DD, mental health and inmate pre-release services are limited to the number of recipients and services approved by the last legislature, the current level medicaid budget funds both increased caseloads and services. The number of medicaid recipients cannot be capped under federal regulations and, except for a few types of services, the state does not impose limits on the number of services any medicaid recipient may receive. Budget modifications in the medicaid program are requested only to expand services to a new group of recipients or to provide a new service.

The existing medicaid budgeting and rate-setting process may tend to favor some provider groups and services over others. Rate increases for nursing facilities, inpatient hospital services, and most fee-based providers must be presented to and acted upon by the legislature. However, rate increases for certain cost-based facilities, such as psychiatric and outpatient hospital services and negotiated contract,

such as personal care, and mental health center services are not presented to the legislature; and the legislature may not be aware that increased rates for these providers are funded in the current level medicaid budget. This process reduces the legislature's ability to establish its own priorities for providing rate increases to medicaid providers and may reduce its ability to control medicaid costs.

Recent Rate Increases

Table 3 shows the rate increases budgeted for various provider groups during the last three biennia as recorded in the Appropriations Report for each biennium.

Table 3
Budgeted Provider Rate Increases

Provider Type	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
Physicians	1.5%	1.5%	2.0%	2.0%	(A)	(A)
Nursing	2.0%	2.0%	(B) 3.0%	(B) 3.0%	9.9%	4.8%
Hospitals	0.0%	0.0%	3.9%	3.9%	0.0%	0.0%
Other Medicaid	0.0%	0.0%	2.0%	2.0%	0.0%	0.0%
Mental Health	0.0%	0.0%	2.0%	2.0%	2.0%	0.0%
Pre-Release	0.0%	0.0%	(D) 2.0%	(D) 2.0%	2.0%	2.0%
Foster Care	2.0%	2.0%	(E)	(E)	4.5%	4.5%
DD	2.0%	2.0%	(F) 2.0%	(F) 2.0%	4.5%	4.5%

(A) Obstetrical/gynecological services from 50% to 85% of allowable costs. Pediatric services from 50% to 80% of allowable costs. No increase for other services.
(B) Also received $390,209 in FY90 and $803,830 in FY91 to increase nurse aides salaries.
(C) Approximate average increase net of nursing home bed fee imposed by HB 93.
(D) Also received additional funding commensurate with state employee pay plan.
(E) Non-family foster rates to 100% of model. Family foster care rates increased 2%.
(F) Also received additional funding to increase direct care staff salaries.

BUDGETING METHODOLOGY OPTIONS

Problems With Current Methodology

Non-medicaid providers - A "current level" budget is defined in state law as the "level of funding required to maintain operations and services at the level authorized by the previous legislature, after adjustment for inflation". The OBPP and LFA budgeting systems are currently applying inflation factors to more than 80 different expenditure items and including increases in workers' compensation rates in state agency current level budgets to be presented to the 1993 legislature. However, neither office is using a comparable system to adjust budgets for human service provider contracts for "inflation". Consequently, the 1993 legislature will

act on current level budgets for all non-medicaid providers at the actual dollar level established by the 1991 legislature.

Moreover, because the responsible state agencies are not requesting rate increases for these providers and there is no analysis of these budgets by the OBPP and LFA, the 1993 legislature may not have adequate data available if it wishes to increase provider rates based on increased costs. Historically, a lack of cost data for these providers has resulted in the legislature approving across-the-board rate increases that may have had little relationship to inflation.

Without a well-defined process to make inflationary adjustments in current level budgets for purchasing human services, the legislature cannot be assured that any portion of rate increases it grants providers will be available to increase private provider employee salaries. Providers must pay their fixed costs, but may be able to postpone salary increases if adequate funding is not available. If most or all of any rate increase granted them is "eaten" by fixed costs that have not been included in their current level budgets, there may be little funding left for salary increases.

Medicaid providers - The existing current level budgeting process for medicaid providers may be inadequate in at least two ways. First, there is a disparity in the way rate increases are granted to different providers. Providers whose rates are not increased without specific legislative authorization must justify any rate increases through the budget modification process, while other providers do not. The current level medicaid budget approved by the legislature funds rate increases for some providers but not others.

Second, because there is no current level system for reviewing many medicaid provider rates, the legislature may not have the information it needs if it wishes to increase provider rates that are not based on cost. While SRS does periodically analyze costs for delivering inpatient hospital and nursing facility services and must review cost data before setting rates for cost-based facilities, there is no systematic review of most providers' rates based on a fee-for-service.

Improving The Budgeting System

Non-medicaid services - Providers who operate facilities such as mental health/DD/foster care group homes and pre-release centers provide many of the same services provided at state facilities and incur cost increases similar to those incurred by state facilities. Additionally, if the legislature wishes to maintain some degree of parity between state and private employees doing the same type of work, salary schedules for employees of these providers types are available for comparison. It may be possible to develop current level budgets for these contracts in the following manner:

1) A base year would be selected for each provider group. Depending upon the level of detail available in provider base year budgets, inflation factors used for state agency operational budgets would be applied to the same expenditure items in provider budgets. Estimates of increases in mandatory employee benefits would be made, as would estimates of other factors which may increase costs but not be covered by specific inflation factors, such as facility rent increases.

2) The above procedure would be used to calculate an aggregate current level budget for contracts by provider type (not by individual facility or contractor) that would then be funded in much the same way state agency budgets are funded. Other appropriate provider revenue sources (eg., resident room and board payments and fees-for-service received from other entities purchasing services from the provider) would be estimated and applied against the current level budget to ensure that the state funds only its share of increased costs. The legislature would then review the adjusted current level budgets in the same way it reviews state agency current level budgets and make revisions as necessary.

3) If state employee pay increases are granted and the legislature wishes to appropriate additional funding to providers for salary increases, the required amount would be based on estimated costs generated during current level analysis and would be added to any inflationary increases already included in the current level budget.

4) To avoid the risk of developing an employer-employee relationship with these providers, the current level budgeting methodology and any consideration of provider salary increases would be limited to developing aggregate funding levels only. The actual allocation of funds to individual providers would be at the discretion of the responsible state agency. Because a current level budgeting methodology may eliminate the need for across-the-board percentage increases (that imply the same increase for every individual provider), it may provide state agencies with more flexibility to "manage" their provider contracts.

Medicaid services - The complexities of federal medicaid rules and the broad diversity of provider groups participating in the program prevent the development of a single budgeting methodology to recognize provider cost increases. Rates for the two largest components of the medicaid program-- inpatient medical hospital and nursing facility services--are periodically reviewed by SRS to determine if they are "adequate and reasonable" as required by federal law. Even if the executive does not request rate increases based on the results of the review, the process ensures that the legislature has the necessary information if it wishes to consider rate increases, and it permits the legislature to make the final decision on the rates.

The legislature may wish to review existing budgeting and rate-setting policies for other medicaid services by:

1) requesting that SRS review its policy of increasing medicaid rates for certain cost-based services without legislative authorization. Rates for services such as

inpatient psychiatric, outpatient hospital, personal care, and mental health centers may be increased administratively without any review or input by the legislature. When this occurs, the legislature is denied an opportunity to establish its own priorities for rate increases and its ability to control medicaid costs may be reduced.

2) requesting that SRS review its rates for fee-based providers (such as physicians, dentists, pharmacist, and other practitioners) to determine if the rates are adequate. There is currently no systematic process for reviewing or increasing rates to this group of providers. Unless SRS periodically reviews these rates and reports its findings to the legislature, these providers may not receive rate increases at all. Or, if the legislature wishes to grant increases in the absence of an executive request, it may not have the information it needs to determine the appropriate level of increase.

Because there are so many fee-based medicaid providers throughout the state, it would be impossible for the agency to compare medicaid rates paid to providers with the costs they incur providing the service. However, an analysis of the following questions may provide meaningful information for the legislature to consider: a) have medicaid rates for the services most frequently purchased from these providers remained relatively constant as a percentage of their billable rates in recent years?; b) have the billable rate increases been in line with national medical inflation statistics?; and c) are significant numbers of these providers declining to participate in the medicaid program because the rates are inadequate?

ISSUES AND OPTIONS

ISSUE 1: SHOULD THE STATE DEVELOP A CURRENT LEVEL BUDGETING METHODOLOGY FOR NON-MEDICAID HUMAN SERVICE PROVIDER CONTRACTS REFLECTING ESTIMATED INCREASED COSTS?

Option A: Insert language in the 1995 biennium general appropriations act requiring the OBPP, LFA, and responsible state agencies to meet with representatives of these provider groups to: 1) determine the feasibility of developing such a system; 2) the numbers and types of providers and services for which such a budgeting system would be appropriate; and 3) report to the Legislative Finance Committee prior to February 1, 1994, on the feasibility of developing a current level 1997 biennium budget for these providers and services reflecting the state's share of increased costs. (This option would permit the committee to review the feasibility of the budgeting system and recommend a course of action.)

Option B: Insert language in the 1995 biennium general appropriations act requiring the OBPP, LFA, and responsible state agencies to:

1) meet with representatives of these provider groups to a) determine the feasibility of developing such a system; and b) the numbers and types of providers and services for which such a system would be appropriate; and

2) prepare a current level 1997 biennium budget for these providers and services reflecting the state's proper share of increased costs.

Option C: Take no action.

ISSUE 2: SHOULD THE STATE REVIEW ITS POLICY OF PROVIDING CERTAIN MEDICAID RATE INCREASES WITHOUT LEGISLATIVE AUTHORIZATION, WHILE REQUIRING ADDITIONAL FUNDING AND LEGISLATIVE AUTHORIZATION FOR OTHERS?

Option A: Request that SRS review its current policy of increasing certain cost-based medicaid rates without legislative authorization and report to the 1993 legislature by February 15, 1993, on the feasibility of subjecting those rate increases to the same legislative authorization required for most fee-based rate increases.

Option B: Take no action.

ISSUE 3: SHOULD THE STATE ESTABLISH A PERIODIC REVIEW OF RATES PAID MEDICAID PROVIDERS WHOSE RATE INCREASES MUST BE APPROVED BY THE LEGISLATURE TO ENSURE THAT THE RATES ARE EQUITABLE AND ADEQUATE?

Option A: Request that SRS prepare a report to the Legislative Finance Committee by July 1, 1993, on: 1) the feasibility of developing a methodology to determine the equity and adequacy of rates paid these providers for the services they most frequently deliver to medicaid recipients; and 2) the appropriate intervals for such rate reviews to occur.

Option B: Take no action.

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EXHIBIT EXH 2
DATE
HB 1-26-95

FINAL REPORT OF THE WORKING GROUP TO RECOMMEND A METHODOLOGY FOR PRESENT LAW ADJUSTMENTS TO SELECTED HUMAN SERVICES BUDGETS

A Report Prepared for the

Joint Appropriations Subcommittee on Human Services and Aging

by

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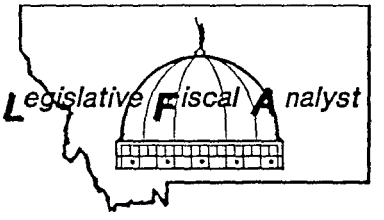
January 18, 1995



EXECUTIVE SUMMARY

The 1993 Joint Appropriation Subcommittee on Human Services and Aging (subcommittee) reviewed a November 1992 Legislative Fiscal Analyst (LFA) staff report on determining present law budget adjustments for human services budgets. Based on recommendations of the subcommittee, the Legislative Finance Committee (LFC) adopted several options in the report, including a directive that a working group be formed to recommend a present law budget methodology for human service budgets. Present law is that level of funding required to support state services at the level authorized by the last legislative session.

On behalf of the LFC, staff invited representatives of statewide human service provider associations, state agency staff, and several human services representatives to participate in the working group. The following service providers attended: developmentally disabled, emotionally disturbed children, foster care, visually impaired, vocational rehabilitation, pre-release centers, and domestic violence. Staff from the following state agencies participated: the Department of Social and Rehabilitation Services (SRS), Department of Family Services (DFS), Department of Corrections and Human Services (DCHS), and the Office of Budget and Program Planning (OBPP). Appendix A lists all the providers and agency staff invited to participate, those that accepted the invitation, and other interested persons who received working group materials and reports.

LFA staff coordinated and facilitated meetings in addition to preparing staff reports and an analysis of the options considered by the working group. LFA staff also took minutes of the two meetings that were held. LFA staff did not participate in the selection or support of various options under consideration.

The working group process followed a modified consensus model. Decisions arose out of group discussion. While there was not unanimous agreement on every issue, most decisions were supported by a significant majority of group members.

Recommendations

The working group made four recommendations: 1) a present law budget methodology; 2) criteria to select human services to be included in the methodology; 3) implementation schedules; and 4) evaluation and potential permanent adoption of working group recommendations by the 1997 legislature.

Budget Methodology

The working group, following the directive of the LFC, did not consider the adequacy of existing rates or rate structures for human services. The working group confined its deliberations to evaluation of a present law budget methodology for human services budgets.

The working group considered three budget methodologies: 1) a consumer price index (CPI); 2) a process similar to the methodology used to develop state agency present law

budgets; and 3) a benchmark methodology, whereby inflationary/deflationary changes for similar state programs are used to determine present law adjustments for human services budgets. The working group rejected the option to use a process similar to that used to develop state agency budgets and gave further consideration to the other two options. The working group determined that the CPI methodology was superior to the benchmark methodology based on ease of understanding, equity, and workload impacts.

The working group recommends: 1) using a published consumer price index (CPI) to determine the inflation/deflation change between the base budget and present law budgets for human service budgets for the 1997 biennium; 2) compounding the rate increase within a biennium; 3) directing OBPP to use the methodology to develop the 1999 biennium budget; and 4) adjusting the base budget in the following biennium to reflect the difference between the actual and budgeted CPI. The group further recommends using the U.S. all city average CPI for urban consumers calculated monthly by the U.S. Department of Labor.

Services to be Included

The working group recommends that budgets for human services meeting the following criteria be included in the present law budget methodology.

- Mandated Service - The state would have to provide the service for most or all clients if the service were not contracted. State statutes provide for the service and assign the responsibility to a particular state agency.

- Fixed Fee - The amount paid for the service does not increase unless an appropriation to do so is expressly approved by the legislature.

- State Sole Client - The state is either the sole client or the majority purchaser of the service.

- Medicaid Services Generally Excluded - All medicaid funded services are excluded with the following exceptions: therapeutic group homes, case management services for the developmentally disabled (DD) and for the mentally ill, and community- and home-based waiver services for the developmentally disabled.

The working group was charged with developing a budget methodology for non-medicaid services. However, the group included several medicaid services because: 1) SRS did not undertake the comparable study for medicaid services requested by the LFC; 2) although most medicaid services will be included in managed care programs, some services, such as the home- and community-based waiver programs, are not included; and 3) providers believed that budget adjustments should be considered until medicaid managed care programs are fully implemented.

Implementation

The working group requests that its recommendation be adopted and used to calculate and appropriate 1997 biennium present law adjustments to human services budgets. The group further recommends that the subcommittee adopt language in the general appropriations act directing OBPP to use the budget methodology and apply it to selected human services in developing the 1999 biennium budget.

Evaluation and Review

The working group recommends that the methodology be reviewed by the subcommittee during the 1997 legislature. If the process is acceptable to the legislature, providers, and state managers, based on experience in developing two budgets, the working group would request that the subcommittee sponsor a bill during the 1997 legislature to require that present law adjustments for selected human service budgets be developed using the CPI methodology.

Evaluation of the Recommendations

The legislature may choose to adopt all or portions of the working group recommendations. In making its decisions, the legislature may wish to consider the strengths and weaknesses of the recommendations, which are summarized below.

Budget Methodology

- The present law budget methodology recommended by the group is the easiest to understand of the three methodologies considered. The all city urban consumer CPI recommended for use is a less volatile index than other indices (such as regional, city size, or health care CPI's) considered by the group.

- The CPI methodology has the least workload impact on state agency and provider staff. It is also the best methodology to preserve integrity of independent contractor status of providers.

- The CPI methodology is within the statutory meaning of a present law adjustment and it is not without precedent in public budgeting.

- The legislature and legislative staff would be able to evaluate present law adjustments made in the Executive Budget. Cost changes would be included in the present law base rather than being characterized as new proposals and expansions of services.

- The CPI methodology is the least similar of the options considered to the present law budget methodology used to adjust state agency budgets, may not be reflective of the types of changes made to base budgets to derive state agency present law budgets, and doesn't take into account other sources of revenue available to providers or unique costs that may be incurred by different providers.

- Despite its stability, the budgetary impact of a CPI isn't predictable. The retroactive adjustment recommended by the working group could be counter cyclical.

- Providers may still lobby for additional present law changes due to "extraordinary" budget increases beyond the CPI, continuing many of the disadvantages of the present system.

Services to be Included

- The CPI methodology would be applied to those services that the state is mandated to provide and would have to directly provide if contractors were unable to perform the service.

- Since services to be included/excluded are not specifically listed, application of the criteria may result in some services being treated differently than expected by the legislature.

- Some services will be excluded from the budget methodology and the legislature could still be faced with evaluating requests for rate increases without adequate information on which to base the decision.

INTRODUCTION

The state of Montana purchases mental health, developmental disabilities (DD), foster care, day care, medical, and other human services from private providers. Some of these services used to be or would be provided directly by the state if it were unable to contract for provision of the services. The general fund cost of these services is a significant state expenditure, accounting for 28.3 percent of the 1995 biennium budget and 28.9 percent of the 1997 biennium Executive Budget request.

State agencies use a variety of methodologies to establish rates paid for human services. In rare instances, provider expenditures and revenues are taken into account in establishing rates. Most rates are established without reviewing the cost to provide the service or determination of the state share of costs.

Some of the human service provider rates are raised only when the legislature authorizes the increases, while other rates are increased without legislative oversight. This dual rate-setting policy: 1) requires that some providers defend rate increases before the legislature

while others do not; 2) does not allow the legislature to establish its own priorities; and 3) may decrease the legislature's ability to control costs.

Prior to the 1997 biennium, the Executive Budget included human service provider rate increases as new proposals (formerly called budget modifications), which are statutorily defined to be expansions or additions of new services. However, the 1997 biennium Executive Budget includes rate increases as present law adjustments. Referring to rate increases as new proposals may give the public and legislators the incorrect impression that the state is expanding services when rate increases fund inflation in the cost of existing services. While some rate increases have resulted from service expansions or new, additional requirements that providers must meet, most human service provider rate increases have funded inflation in operating and personnel costs.

The state has followed a well defined process to establish present law base budgets (formerly called current level), and the executive used nearly the same process to produce the 1997 biennium budget. In developing the present law base, the executive included the following types of changes in agency budgets: 1) internal service costs; 2) personnel costs such as workers' compensation and tax rates and annualization of the 1995 biennium pay plan; and 3) inflation in operating costs.

Legislative Direction

The 1993 Joint Appropriation Subcommittee on Human Services and Aging reviewed the policy issues presented in the November 1992 LFA report "Human Services Provider Rates" and based on issues raised in the report recommended adoption of three options included in the report which were subsequently adopted by the LFC. The LFC made these recommendations:

1) Insert language in the 1995 biennium general appropriations act requiring the OBPP, LFA, and responsible state agencies to meet with representatives of these human services provider groups to: 1) determine the feasibility of developing a present law budget methodology for human services providers; 2) determine the numbers and types of providers and services for which such a budgeting system would be appropriate; and 3) report to the Legislative Finance Committee prior to February 1, 1994, on the feasibility of developing a current level 1997 biennium budget for these providers and services reflecting the state's share of increased costs. (This recommendation would have permitted the committee to review the feasibility of the budgeting system and recommend a course of action.)

2) Request that SRS review its current policy of increasing certain cost-based medicaid rates without legislative authorization and report to the 1993 legislature by February 15, 1993, on the feasibility of subjecting those rate increases to the same legislative authorization required for most fee-based rate increases.

3) Request that SRS prepare a report to the LFC by July 1, 1993, on: 1) the feasibility of developing a methodology to determine the equity and adequacy of

rates paid these providers for the services they most frequently deliver to medicaid recipients; and 2) the appropriate intervals for such rate reviews to occur.

Due to an oversight, language was not included in HB 2 and implementation of option A under issue 1 was delayed due to preparation for the November 1993 Special Session. LFA staff presented an interim progress report at the June 1994 LFC meeting and was directed to continue its work and present working group recommendations to the subcommittee during the 1995 legislative session.

WORKING GROUP

The following sections present the working group recommendations to implement a human services present law budget methodology and to define characteristics of services to be included in the budget methodology. A summary of the three types of budget methodologies considered by the group and an evaluation of the option selected by the group are included. The first section describes the membership of the working group, the process it followed, and the LFA staff role.

Working Group Membership and Decision Making

LFA staff, on behalf of the LFC, invited statewide provider associations and other human services providers, as well as state agency staff, to participate in the working group. Invitations were extended to the providers of the following services: developmentally disabled (DD), emotionally disturbed children, foster care (including family foster care and group care), visually impaired, vocational rehabilitation, pre-release centers, domestic violence, chemical dependency, Big Brothers/Big Sisters, and community mental health centers. Although some of these providers receive reimbursement for some services from medicaid funds, all of the providers receive reimbursement from state funds and rates paid to these providers are generally established by state agencies that contract for services. Staff from SRS, DCHS, DFS and OBPP also participated.

The role of LFA staff was to facilitate and moderate the working group discussions and meetings. The LFA also provided staff support in preparing written reports for the working group, analysis of options for group discussion, and minutes of the two meetings that were held. LFA staff reported and analyzed the working group recommendation for subcommittee consideration. A draft of the final report was mailed to working group members and several changes were made to the document based on members' comments. LFA staff did not express preferences among alternatives discussed or in the selection of preferred alternatives.

The working group followed a modified consensus model in making its decisions. Not every decision was unanimously supported, but all decisions were supported by a significant majority of working group members.

Working Group Goals

The working group adopted a goal statement to guide it's deliberations. The goal was:

> to develop and recommend to the 1995 legislature a budget methodology that adjusts the level of funding needed to maintain operations and services at the level authorized by the last legislature for independently provided/contracted services: 1) that are funded through fixed fees raised only when the legislature makes an appropriation to increase fees; 2) that are mandated services such that the state would have to provide the service for all or the majority of human service clients if contractors did not provide services; and 3) where the state is the sole or primary purchaser of the service.

The working group also adopted three objectives to direct selection of a budget methodology and services to be included in the methodology:

1) Fairness - The recommendation should be perceived as fair and equitable by those receiving the adjustment and those approving the adjustment.

2) Simplicity - The budget methodology should be easily understood by a large number of people; it should be reasonably straight forward.

3) Integrity - The recommendation should maintain the integrity of the independent contractor status of human service providers.

Legislative direction given to the working group did not involve consideration of whether existing rates paid to human service providers were adequate. Therefore, group discussion and recommendations deal only with consideration of inflationary and deflationary adjustments to the existing rates. The working group emphasized that it did not evaluate the adequacy of current rates paid for human services.

Recommendations

The working group made four recommendations that include: 1) a present law budget methodology; 2) criteria to select human services to be included in the budget methodology; 3) implementation of the recommendations; and 4) evaluation and potential permanent adoption of the working group recommendations by the 1997 legislature.

Budget Methodology

The working group considered three types of budget methodologies: 1) a process similar to the methodology used to determine state agency present law budgets; 2) a benchmark methodology, where present law inflationary and deflationary changes for similar state agency programs are applied to human services contract budgets; and 3) a CPI.

The working group recommends that the legislature: 1) use a CPI calculated during the base budget year to determine present law adjustments; 2) compound the CPI over the biennium; and 3) retroactively adjust the base budget in the following biennium to account for the differences between the CPI used in budget development and the actual CPI. The group recommends using the all urban consumer CPI published by the U.S. Department of Labor.

Rationale for Decision

CPI - The most important reasons that the CPI methodology was selected by the group are: 1) it is the most easily understood option of the three budget methodologies considered; 2) it represents the cost increases of goods and services that contractors experience and that contractors' employees purchase; and 3) it is perceived as a fair measure of price changes.

Compounding - The working group also recommended that the CPI should be compounded annually in calculating budget changes to recognize cost changes occur each year of the biennium. The group did not recommend from which month the CPI should be chosen, just as long as the CPI from the same month in the 1997 biennium base budget year is used in the following budget cycle (1999 biennium base budget year).

Retroactive Adjustment - The working group recognized that the CPI used to develop the budget will usually be different than the CPI that occurs in the following years. Therefore, it recommended a retroactive adjustment in development of the base budget for the following biennium to account for the difference. For example, the CPI used to develop the fiscal 1996 present law budget would be 2.5 percent. However, in fiscal 1996, the CPI may be higher or lower than 2.5 percent. The retroactive adjustment could lower or increase the base budget.

All City Urban Consumer CPI - The urban all city average was chosen because it is the most stable, reliable index calculated by the U.S. Department of Labor. The base used to calculate the all city index is much broader than the base of other indices, such as U.S. regional indices and health care indices.

It is the most straight forward, unambiguous CPI. Over the long term it is one of the least volatile indices. Working group members also believed that the urban all city CPI was more applicable to most providers' circumstances than other indices.

Other Considerations - Use of a CPI falls within the meaning of a present law adjustment according to a legal opinion by Legislative Council Staff (see Appendix B). An urban consumer CPI is also used to calculate increases for certain local government officials (sections 13-37-281, 15-30-101, 7-4-2403 and 7-4-2504, MCA).

Some working group members expressed concern that the CPI would not cover extraordinary cost changes such as those experienced in workers' compensation premiums. Some working group members said that their associations may lobby for increases in addition to the CPI adjustment.

Services to Be Included

The working group recommended characteristics of the types of services to be included in the present law budget methodology. The over-riding policy articulated by the group is that services should be included in the budget methodology if the state is mandated to provide the services. In other words, the state must provide the service, even if private contractors no longer supplied the service. With that primary policy in mind the working group adopted the following criteria to describe services that ought to be included:

1) The state is mandated to provide the service.

2) The state is the sole or primary client for the service.

3) Services are reimbursed on a fixed fee basis. The amount that a state agency pays for a unit of service is not increased unless the legislature appropriates funds.

4) Medicaid services are generally excluded except for three exceptions: a) home- and community-based waiver services for the developmentally disabled; b) therapeutic group homes; and c) targeted case management services for the developmentally disabled and mentally ill.[1]

Exceptions to Guidelines

The group also recommended that several services be included even though the services may not meet each guideline. Those services are: community mental health centers, and vocational rehabilitation and visual services. While these services generally fit all the articulated guidelines, the amount paid per unit of service changes even though the legislature does not authorize a specific fee increase since state agencies cannot always maintain a fixed fee for these services or establish the fee for services. For instance, tuition increases and the cost of adaptive equipment are beyond the control of the Vocational Rehabilitation and Visual Services programs. Since the appropriation for these services is not tied to tuition or equipment increases, fewer services are purchased for vocational rehabilitation and visual services clients. While per unit service rates paid to mental health centers do change under the rate-setting methodology, the amount appropriated for services does not change. So in these instances, the state purchases fewer units of service as the per unit cost rises.

Table 1 shows which services would be included under the criteria and which would not. As shown in the table, the following services meet all the criteria: developmental disabilities, rehabilitation services, foster care group home and family care, and pre-release

[1] However, it should be noted that the Domestic Violence Coalition did not endorse the recommendation of criteria to define which services should be included in the present law methodology.

centers. The group also recommended that visual and vocational rehabilitation educational and specialized equipment services and community mental health centers be included. Services that would not meet the criteria and were not specified for inclusion in the budget methodology are: child care, aging services, Big Brothers/Big Sisters, Domestic Violence, chemical dependency, and subsidized adoption.

Table 1
Non-Medicaid Human Services Providers Shown According to Working Group Criteria

Responsible Agency/ Services/ Provider	Type of Reimbursement: Fixed Fee	Cost-based	Grant	Other	State Primary Client	Mandated Service	Meets All Criteria	Signed Contract
Social and Rehabilitation Services								
Developmental Disabilities Services	X				X	X	X	X
Vocational Rehabilitation and Visual Services								
Rehabilitation Services	X				X	X	X	
Equipment, Specialized Services		X				X		
Tuition and Fees		X						
Child Care*	X			X		X		
Work Programs	X		X	X	X	X		X
Family Services								
Foster Care Services								
Group Homes**	X				X	X	X	
Therapeutic Foster Care	X				X	X	X	X
Family Foster Care	X				X	X	X	X
Child Care*	X			X				
Aging			X					X
Big Brothers/Big Sisters			X					X
Domestic Violence			X					X
Chemical Dependency Treatment				X				
Subsidized Adoption				X	X	X		
Corrections and Human Services								
Mental Health Community Centers***		X		X		X		X
Pre-Release Centers	X				X	X	X	X
Chemical Dependency Treatment****	X							X

*Federal regulations require that minimum day care rates be no lower than 75% of the market rate based on a survey of day care providers.
**Group homes also serve a small number of clients supported by family payments or private insurance.
***Even though Mental Health Center rates are calculated from a cost-based method, the DCHS general fund appropriation for mental health services is capped.
****Treatment programs sign contracts with the state for services funded with federal block grant funds and with counties for services funded with state alcohol tax funds.

Medicaid Services Included

The working group was charged with developing a budget methodology for non-medicaid services. However, the group included several medicaid services because: 1) SRS did not undertake the comparable study for medicaid services requested by the LFC; 2) providers are reimbursed by medicaid or solely from the general fund for some services depending on client eligibility; 3) providers believed that budget adjustments should be considered until medicaid managed care programs were fully implemented; and 4) some

services will not be included in managed care contracts that will be implemented by SRS.[2]

The LFC had requested that SRS: 1) review medicaid services funded by fixed fees raised only when the legislature appropriates funds for a rate increase; and 2) recommend a present law budget methodology for those medicaid services. However, since SRS is proposing managed care plans for mental and most physical health services, it did not do the study. Since the managed care contractor will negotiate rates with providers, SRS staff believed that the study requested by the LFC was unnecessary.

All mental health services and most physical health services will be included in managed care contracts. However, nursing home care, home- and community-based waiver services, and transportation services will not be included in initial managed care contracts. Also, SRS expects that at least during the first 2 or 3 biennia, managed care will not be available statewide. There will still be fee-for-service reimbursements for medicaid services where managed care is not available.

The group recommended inclusion of selected medicaid services since some providers (such as DD and foster care providers) are reimbursed by medicaid or fully from the general fund depending on the eligibility of the client. The cost of the service is the same no matter which funding source is paying for it and rates are fixed unless the legislature authorizes a fee increase.

Implementation and Evaluation of Recommendations

The final two recommendations made by the working group involve implementation and evaluation of the budget methodology. The working group recommends implementation of the budget methodology to determine present law adjustments for 1997 biennium selected human services budgets. The working group also recommends that language be added to the general appropriations active directing OBPP to use the methodology to develop the 1999 biennium budget for selected human services. Finally, the group recommends that the 1997 subcommittee evaluate experience with the methodology over two biennia and if the review is positive, introduce a bill to make the methodology a permanent part of the state budget development process.

1997 Biennium Cost of CPI Methodology

Table 2 shows all human services benefit base budgets (except excluded medicaid services), and the present law adjustment calculated from the June 1994 CPI, which is 2.5 percent. (The June CPI was used because June is the same month that other base budget data is compiled for agency budgets.)

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[2]SRS will contract with health maintenance organizations for provision of most physical health medicaid services for a fixed per person per month fee (capitation rate). SRS will also implement a capitated contract for mental health services.

The data in Table 2 are drawn from the 1997 biennium Executive Budget request and are funded in the same proportions as the provider rate increase included in the Executive Budget. Adoption of the working group recommendation would cost $6.3 million total funds ($4.3 million general fund) over the biennium. That amount is $2.1 million total funds ($1.7 million general fund) higher than the 1.5 percent provider rate increase included in the Executive Budget over the 1997 biennium.

Table 2
CPI Present Law Adjustments for Selected Human Services Budgets*

Department/Human Service Budget	Fiscal 1994 Base Budget	Fiscal 1996 Present Law Budget General Fund	Other Funds	Total	Fiscal 1997 Present Law Budget General Fund	Other Funds	Total
Social and Rehabilitation Services							
Developmental Disabilities	$35,751,938	$17,337,636	$22,881,030	$40,218,666	$17,563,485	$23,239,180	$40,802,665
Vocational Rehabilitation**	5,498,995	1,455,444	4,186,204	5,641,648	1,461,444	4,186,204	5,647,648
Visual Services	553,937	102,915	380,252	565,722	102,915	380,252	565,722
Sub-Total SRS	$41,804,870	$18,895,995	$27,447,486	$46,426,036	$19,127,844	$27,805,636	$47,016,035
Cost of 2.5% Present Law Adjustment**		$668,678	$476,075	$1,144,753	$1,350,500	$958,125	$2,308,625
Family Services							
Foster Care***	$16,315,430	$11,328,965	$5,633,670	$16,962,635	$12,491,272	$5,941,421	$18,432,693
Therapeutic Group Homes	1,101,680	1,611,565	3,714,162	5,325,727	1,650,976	3,804,992	5,455,968
Sub-Total DFS	$17,417,110	$12,940,530	$9,347,832	$22,288,362	$14,142,248	$9,746,413	$23,888,661
Cost of 2.5% Present Law Adjustment		$364,378	$179,369	$543,747	$786,510	$373,678	$1,160,188
Corrections and Human Services							
Community Mental Health Centers****	$7,393,499	$5,974,574	$642,247	$6,616,821	$6,004,267	$1,323,073	$7,327,340
Pre-Release Centers	3,140,217	3,397,223	0	3,397,223	3,395,378	0	3,395,378
Sub-Total DCHS	$10,533,716	$9,371,797	$642,247	$10,014,044	$9,399,645	$1,323,073	$10,722,718
Cost of 2.5% Present Law Adjustment		$318,533	$0	$318,533	$818,092	$0	$818,092
Grand Total Base and Present Law Budgets	$69,755,696	$41,208,322	$37,437,565	$78,728,442	$42,669,737	$38,875,122	$81,627,414
Grand Total CPI Present Law Adjustment		$1,351,589	$655,444	$2,007,033	$2,955,102	$1,331,803	$4,286,905
Total Legislative Appropriation		$42,559,911	$38,093,009	$80,735,475	$45,624,839	$40,206,925	$85,914,319

NOTES:
*1997 Biennium budget amounts shown represent present law budgets only. New proposals are not included. The cost of a provider rate change would increase if the subcommittee approved new proposals and included those new proposals in the rate increase.
**Changes in tuition are held to 2.5%. the subcommittee choses to fund tuition increases separately at the rate expected in the Executive Budget, the subcommittee would need to add about $97,000 general fund and $470,000 federal funds over the biennium.
***Foster care rate increases are funded according to the funding mix in the Executive Budget.
****Community mental health centers are funded with capped federal block grant funds which will not increase to cover the CPI adjustment shown in this table. General fund supports the increase.

Examples of 1999 Biennium Cost

The working group recommended that this budget methodology be used to develop the 1999 biennium budget as well. There are two components to consider: 1) adjustments to the base budget to retroactively account for the difference between the CPI used in the 1997 biennium budget and the actual, resultant CPI; and 2) adjustments to the present law budget using the June 1996 CPI.

Tables 3 and 4 show hypothetical examples of the impact to the 1999 biennium budget if the working group recommendation to retroactively adjust for the actual CPI is adopted.

Table 3 shows an example where the actual CPI in fiscal 1996 and 1997 is assumed to be 1 percent higher than the CPI used to develop 1997 biennium human services budgets. Table 4 shows an example where the actual CPI is assumed to be one percent lower than the CPI used to develop 1997 biennium human services budgets. Funding for budget changes shown in Tables 3 and 4 is based on the funding splits used in Table 2, which will probably vary somewhat from funding ratios used to develop the 1999 biennium budget. There are several costs not included in Tables 3 and 4 since data from Table 2 is used as the foundation for the examples: 1) tuition increases for vocational rehabilitation clients above the 2.5 percent CPI; and 2) including the cost of new proposals for some services in the Executive Budget. However, the cost of caseload increases shown in Table 2 is carried forward in Tables 3 and 4.

Table 3
CPI Retroactive Adjustment and 1999 Biennium Present Law Adjustment
(Actual CPI Higher Than CPI Budgeted)

Base and Present Law Budget Adjustments	General Fund	Other Funds	Total	General Fund	Other Funds	Total
Retroactive Adjustment to Base Budget	---Fiscal 1996 Base Budget---			Fiscal 1997 Appropriated Budget		
1. Base Budget as Appropriated by Legislature	$42,559,911	$38,093,009	$80,652,920	$45,624,839	$40,206,925	$85,914,319
2. Remove 1997 Biennium 2.5% CPI Adjustment	(1,351,589)	(655,444)	(2,007,033)	(2,955,102)	(1,331,803)	(4,286,905)
3. Apply June 1996 CPI - 3.5%	1,892,225	917,622	2,809,846	4,007,718	1,806,195	5,813,913
4. Revised Base Budget	$43,100,547	$38,355,187	$81,455,733	$46,677,455	$40,681,317	$87,358,772
5. Add Annualization of Fiscal 1997 CPI Change and Caseload Increase	3,576,908	2,326,131	$5,903,039			
Total Base Budget	$46,677,455	$40,681,317	$87,358,772	$46,677,455	$40,681,317	$87,358,772
Present Law Adjustments for 1999 Biennium	---Fiscal 1998---			---Fiscal 1999---		
6. June 1996 CPI is 3.5%	$1,852,707	$1,204,850	$3,057,557	$3,770,258	$2,451,870	$6,222,129
Total Present Law Budget	$48,530,161	$41,886,167	$90,416,329	$50,447,713	$43,133,187	$93,580,900

Table 3 shows: 1) the 1999 biennium base budget (fiscal 1996) and appropriated level (fiscal 1997) resulting from using the June 1994 CPI (2.5 percent); 2) adjustments to the base budget and appropriated budget to determine 1999 biennium human services budgets; and 3) application of the June 1996 CPI (3.5 percent for illustrative purposes) to develop present law adjustments for the 1999 biennium budget. The retroactive adjustment, as illustrated in Table 3, would add $2.3 million total funds ($1.6 million general fund) to human services base budgets **before** the June 1996 CPI is used to determine present law adjustments for the 1999 biennium.

Table 4 illustrates the impact of the retroactive adjustment to the base budget and appropriated budget if the actual CPI which is assumed to be 1 percent lower than the CPI used to develop the 1997 biennium budget. In this example, retroactively applying the actual CPI would lower human services base and appropriated budgets by $2.6 million total funds ($1.8 million general fund).

Table 4
CPI Retroactive Adjustment and 1999 Biennium Present Law Adjustment
(Actual CPI Lower Than CPI Budgeted)

Base and Present Law Budget Adjustments	General Fun	Other Funds	Total	General Fun	Other Funds	Total
Retroactive Adjustment to Base Budget	---Fiscal 1996 Base Budget---			Fiscal 1997 Appropriated Budget		
1. Base Budget	$42,559,911	$38,093,009	$80,735,475	$45,624,839	$40,206,925	$85,914,319
2. Remove 1997 Biennium 2.5% CPI Adjustment	(1,351,589)	(655,444)	(2,007,033)	(2,955,102)	(1,331,803)	(4,286,905)
4. Apply June 1996 CPI - 1.5%	810,953	393,266	1,204,220	1,700,713	766,476	2,467,189
5. Revised Base Budget	$42,019,275	$37,830,831	$79,850,107	$44,370,450	$39,641,598	$84,012,048
6. Add Annualization of Fiscal 1997 CPI Change and Caseload Increase	2,351,174	1,810,767	4,161,941			
Total Base Budget	$44,370,450	$39,641,598	$84,012,048	$44,370,450	$39,641,598	$84,012,048
Present Law Adjustments for 1999 Biennium	---Fiscal 1998---			---Fiscal 1999---		
7. Adjust Base by June 1996 CPI - 1.5%	$711,905	$548,276	$1,260,181	$1,434,488	$1,104,777	$2,539,264
Total Present Law Budget	$45,082,354	$40,189,874	$85,272,229	$45,804,937	$40,746,375	$86,551,312

Historic Increases Compared to CPI

Table 5 shows the historic rate increases granted for most human service budgets compared to the actual CPI for that fiscal year. Provider rate increases granted by the legislature were lower than the urban consumer CPI in all years, except for developmental disabilities services in fiscal 1992 and 1993. Foster care providers, excepting foster family care, probably received rate increases in excess of the CPI in fiscal 1990 and 1991. However, the average change in foster care rates is not available.

Table 5
Provider Rate Increases Authorized by the Legislature
Compared to June CPI
Fiscal 1988 to Fiscal 1995

Service	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95
Developmental Disabilities*	2.0%	2.0%	2.0%	2.0%	4.5%	4.5%	2.5%	2.5%
Foster Care**	2.0%	2.0%	(*)	(*)	2.0%	2.0%	2.5%	2.5%
Mental Health	0.0%	0.0%	2.0%	2.0%	0.0%	0.0%	0.0%	0.0%
Pre-Release Centers	0.0%	0.0%	2.0%	2.0%	2.0%	2.0%	0.0%	0.0%
CPI	4.0%	5.2%	4.7%	4.7%	3.1%	3.0%	2.5%	N/A

*DD services also received funding to increase direct care staff salaries in FY90 and FY91.
**In FY90 and FY91 non-family foster care rates were increased to 100% of the model rate matrix and family foster care increased 2%.

Evaluation of the Working Group Recommendations

The working group recommendations are evaluated with respect to: 1) the charge given the working group; 2) the goals and objectives developed by the working group; and 3) other relevant policy and budget issues.

CPI Budget Methodology

The following sections examine the strengths and weaknesses of the CPI methodology recommended by the working group.

Strengths

The CPI is the most straight forward, easy to understand budget methodology considered by the working group. The CPI is a widely understood concept.

The CPI methodology is also the best option to ensure the integrity of the independent contractor status of providers. It does not require data from providers nor tie human service budgets to changes in state budgets. It exerts the least control or oversight over contractor budget changes.

The CPI methodology may be the least costly option to implement. It requires the least provider and state agency staff time or involvement to calculate and understand the percentage changes applied to human services budgets. It is less costly than: 1) developing a Montana specific index; or 2) attempting to define costs to be tracked and measuring specific price changes.

The CPI recommended for use is one of the least volatile indices calculated, because it is based on a larger sample size than regional or city-size indices. The all city urban consumer CPI covers 80 percent of the total U.S. population and is a standardized measurement of the change in prices in 85 locations.

The urban CPI measures cost changes in items purchased by human service providers such as the cost of utilities, gasoline, food, and other consumer goods. The urban CPI is a superior alternative to health care indices, because most of the human services providers considered: 1) do not incur significant medical costs since many clients are medicaid eligible; and 2) do not directly provide medical services.

Use of the urban consumer CPI methodology is not without precedent in public budgeting. It is used to calculate increases in local elected officials salaries (sections 13-37-281, 15-30-101, 7-4-2403 and 7-4-2504, MCA). Using the CPI to estimate present law budget adjustments is within the statutory meaning of a present law adjustment. (See Appendix B.)

For the most part, if the methodology is used in the 1997 biennium budget with a good faith directive on the part of the legislature to continue its use in the developing the 1999 biennium budget, most working group members view this method as a fair and equitable way to account for inflation in the cost of services.

Weaknesses

The CPI methodology is the least similar to the state budget development process and the kinds of changes made to other state agency present law budgets of the three methodologies considered by the working group.

Providers may still lobby the legislature for additional present law budget changes under the CPI methodology if they believe that the CPI does not account for cost increases they face. The legislature will still be subject to the disadvantages of the current system, if the CPI methodology becomes a stepping stone for additional rate increase requests.

The CPI methodology does not include a component to evaluate the adequacy of the rate increases. For instance, if some providers are able to generate revenue from other sources and are in relatively good financial condition compared to other providers, this methodology does not routinely take such differences into consideration. However, the executive can still propose reductions to provider increases as a new proposal if it evaluates individual provider's circumstances.

The retroactive adjustment to base budgets to account for differences between the CPI used and the actual, resultant CPI will be unpredictable. Neither the legislature nor executive may be able to predict the potential budgetary impact of this methodology. The retroactive adjustment could be counter cyclical, producing significant increases when state revenues may not be keeping pace with inflation.

Even though the working group chose a stable, broad based index, it may not be closely related to Montana circumstances and price changes. This disadvantage could unfairly affect providers or the state depending on whether national price changes over or understate Montana price changes. Since the CPI does not account for cost changes in items such as employers' share of workers' compensation, liability, or health insurance or employment taxes it may not accurately reflect cost changes providers experience or cost changes that are made to present law state agency budgets.

Criteria for Services to be Included

Strengths

The criteria adopted by the working group attempt to limit the application of the budget methodology, and imply a prioritization among human services purchased by the state. For instance, the criteria identify services that may have to be absorbed and provided directly by the state if there are no willing contractors. The criteria will provide present law

increases to those services that the state is mandated to provide. The executive and legislature still have the option of proposing broad based provider increases, even if the methodology is implemented.

The service criteria also attempt to limit present law adjustments to those services where the state is the sole or major client. This criteria recognizes the inability of some providers to rely on other sources of income or other clients that may be willing or able to pay more for the service.

The criteria limits the present law adjustment to services reimbursed on a fixed fee basis. In other words, the legislature exercises control over the amount paid for most of the services.

Weaknesses

One disadvantage of the working group criteria is that some services will be excluded from the present law budget methodology because the state is not mandated to provide the service. Additionally, since the working group did not specifically list services to be included or excluded, the executive could include or exclude services not intended to be included or excluded by the working group and the legislature. The legislature may wish to specifically list the human services that the budget methodology ought to be applied to if it adopts a methodology.

Adopting a budget methodology and limiting the services to which it applies may also give advocates of excluded services additional leverage to get the same increases as other groups. The legislature and the executive must still evaluate other human services advocates requests for budget increases.

Other Budget Methodologies Considered

The working group evaluated two other budget methodologies: 1) a process similar to that followed in developing state agency present law budgets; and 2) a benchmark methodology, whereby human services budgets receive present law adjustments equivalent to the percentage change between base and present law budgets for similar state agency programs. The following discussion summarizes the main advantages and disadvantages of the other two budget methodologies and the working group rationale in rejecting the methodologies.

Process Similar to State Agency Budget Development

The working group rejected consideration of using a process similar to that used to develop state agency budgets. This alternative is superior to the other two alternatives considered in insuring that human services budgets receive the same types of present law adjustments as state agencies and allows the most in depth evaluation of contractor costs and revenues.

However, that advantage is countered by several weaknesses. Of the three budget methodologies considered using a process similar to the state process it: 1) is the most labor intensive for human services contractors and state agency staff; 2) is the most complex and difficult to understand; 3) imposes the greatest risk to comprising the integrity of the independent contractor status of human service contractors; and 4) could impose significant compliance costs on human service contractors.

Benchmark Methodology

The working group gave further consideration to the benchmark methodology, choosing to evaluate the change between the fiscal 1994 base budget and preliminary present law adjustments made to budgets for the Montana State Hospital and the Montana Development Center. The percent change between the base budget and each present law budget would be used as the cost change applied to human services budgets. Montana State Hospital was chosen as the benchmark for all services except developmental disabilities, since most of the other services provide shelter and food and have direct care staff and some provide treatment, as well. The Montana Development Center was chosen as the benchmark for DD services.

Several complications arose in calculating the net adjustment between the fiscal 1994 base budget and the 1997 biennium budgets. For instance, the Montana State Hospital budget includes medical and drug costs and inflation for these costs, while private contractors do not typically include such costs. So these changes were removed from the calculations. Present law changes due to overtime, holidays worked and shift differential were also problematic. Despite the complications of the benchmark methodology, it does measure several types of cost changes: 1) inflationary and deflationary changes in operating costs; 2) projected changes in workers' compensation premiums and other employer taxes; and 3) changes in the number of work hours between the base budget and annual biennial budgets.

State agency budget staff thought that the benchmark methodology seemed to fit the directive to determine present law adjustments for human services budgets similar to adjustments included in state agency budgets. However, the working group determined that the benchmark methodology was too complex, too unpredictable, and did not accurately portray changes experienced by private contractors. The group thought that the methodology would be confusing to contractors and to legislators. In addition, the group believed that the methodology was somewhat unpredictable and could subject human services budgets to reductions that were unrelated to providers actual circumstances. The group also thought that state programs were not similar enough to programs managed by contracts to

determine accurate budget changes. The group also thought that using the benchmark methodology could given the appearance of state control or influence over providers, potentially jeopardizing their independent contractor status. Additionally, the benchmark methodology imposed a higher workload on state budget staff and provider representatives than the CPI methodology.

Summary of Recommendations

In summary the working group recommends that:

1) A CPI present law budget methodology be adopted.

a) The all city urban CPI published by the U.S. Department of Labor be used to calculate present law adjustments.

b) The CPI be compounded annually to develop the present law budgets.

c) The base budget in the following biennium be retroactively adjusted to account for the difference between the CPI used to develop the base budget and the actual, resultant CPI.

2) Human services meeting the following criteria be included in the budget methodology:

a) The state would have to provide the service for most or all clients if the service were not contracted. State statutes provide for the service and assign the responsibility to a particular state agency.

b) The amount paid for the service does not increase unless an appropriation to do so is expressly approved by legislature.

c) The state is either the sole client or the majority purchaser of the service.

d) All medicaid funded services are excluded with the following exceptions: therapeutic group homes, case management services for the developmentally disabled and for the mentally ill, and community- and home-based waiver services for the developmentally disabled.

3) The CPI methodology be used to calculate present law adjustments for 1997 biennium human services budgets and that the subcommittee adopt language in the general appropriations act directing OBPP to use the methodology to develop base and present law budgets for selected human services.

4) The subcommittee review and evaluate the recommended budget methodology during the 1999 biennium, and if the process is found to be acceptable and workable by providers, state agency staff, and legislators, that the subcommittee

sponsor a bill to make the CPI budget methodology part of the state budget development process for selected human services budgets.

The subcommittee can consider five actions:

1) ACCEPT THE WORKING GROUP RECOMMENDATION.

The subcommittee would need to take the following actions to implement the working group recommendation: a) appropriate $2.1 million total funds, including $1.7 million general fund more than included in the 1997 biennium Executive Budget; b) adopt language in the appropriations act directing OBPP to use the recommended budget methodology in developing the 1999 biennium budget for human services identified by the working group; and c) direct that human services providers, state agencies, OBPP, and LFA staff review and evaluate the use of the budget methodology for presentation to the 1997 legislature.

2) MODIFY THE WORKING GROUP RECOMMENDATION.

The subcommittee could accept the working group recommendation with modifications. Such modifications could include:

a) Changes to the budget methodology.

i) Require the executive to evaluate other sources of provider income and unique costs experienced by different providers in determining which services should receive the CPI adjustment.

ii) Adopt use of the CPI for present law adjustments to the 1997 and 1999 biennia, but reject the retroactive adjustment to 1999 biennium base budgets.

iii) Adopt the CPI methodology for present law adjustments to the 1997 biennium only.

b) Changes to the service criteria.

i) Specifically list the services to which the budget methodology will apply.

ii) Apply the budget methodology to all human services providers.

iii) Specify different criteria to describe services to be included in the budget methodology.

c) Changes to implementation/evaluation.

i) Direct OBPP in subcommittee minutes to use the methodology.

ii) Request a committee bill to require OBPP to use the methodology in developing the 1999 biennium budget.

iii) Delay implementation until the 1999 biennium budget development.

3) CHOSE A DIFFERENT BUDGET METHODOLOGY.

The subcommittee could chose a different budget methodology than that recommended by the working group. The following mutually exclusive actions are examples of other choices that the subcommittee can make.

a) Adopt the benchmark methodology, implement it in the 1997 biennium budget, and direct that OBPP use the methodology to develop the 1999 biennium budget.

b) Adopt the benchmark methodology and implement it in either the 1997 or 1999 biennium.

c) Direct OBPP to develop and use a process similar to state agency present law budget development in the 1999 biennium.

d) Adopt a unique methodology or one that combines elements of all three.

4) TAKE NO ACTION.

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APPENDIX A

WORKING GROUP MEMBERS AND INTERESTED PERSONS

Provider Representative Members

Darvin Brockway, President
Montana Association of Rehabilitation Facilities
Miles City, MT

Dick Keen, Administrator
Great Falls Pre-Release Center
Great Falls, MT

Gary Marks, Vice President
Montana Foster Adoptive Parents Association
Lewistown, MT

Jani McCall
Therapeutic Foster Care Providers
Billings, MT

Kathy McGowan
Montana Council of Mental Health Centers
Helena, MT

Wallace Melcher, President
Montana Association for Rehabilitation
Helena, MT

Larry Noonan
Aware
Anaconda, MT

Lucille Pope
Coalition Against Domestic Violence
Bozeman, MT

Jim Smith
Montana Association of Homes and Services for Children
Helena, MT

Charlie Trott, President
Montana Association of Independent Disabilities Services
Great Falls, MT

John Wilkinson, President
The Montana Association of Homes and Services for Children
Helena, MT

State Agency Participants

Pat Gervais, Chief
Contract/Grant Payment Bureau
Department of Family Services
Helena, MT

Mike Hanshew, Administrator
Developmental Disabilities Division
Department of Social and Rehabilitation Services
Helena, MT

Sandy Harris, Research and Analysis Manager
Mental Health Division
Department of Corrections and Human Services
Helena, MT

Connie Huckins, Executive Budget Analyst
Office of Budget and Program Planning
Helena, MT

Joe Mathews, Administrator
Vocational Rehabilitation Division
Department of Social and Rehabilitation Services
Helena, MT

Charles McCarthy, Chief
Mary Ann Akers
Bureau for Intervention, Protection, and Treatment
Department of Family Services
Helena, MT

Organizations also Invited to Participate

Big Brothers/Big Sisters

Chemical Dependency Programs of Montana

Montana Community Mental Health Centers

Other Interested Persons

Mr. Dan Anderson
Mental Health Services, Inc.
Helena, MT

John Chappius, Chief
Budget and Institutional Reimbursement Bureau
Department of Social and Rehabilitation Services
Helena, MT

Linda La Fevor
Big Brothers and Big Sisters
Missoula, MT

John Huth
Budget Officer
Department of Corrections and Human Services
Helena, MT

Paul Myer, President
Montana Council of Community Mental Health Centers
Missoula, MT

Mr. Joe Roberts
Helena, MT

Mike Ruppert, President
Chemical Dependency Programs of Montana
Helena, MT

Jan Shaw
Montana Youth Homes
Helena, MT

Scott Simm, Supervisor
Budget and Analysis Unit
Department of Social and Rehabilitation Services
Helena, MT

Appendix B

Montana Legislative Council

Legal Services Division

Room 138 • State Capitol
Helena, Montana 59620-1706
(406) 444-3064
FAX (406) 444-3036

September 29, 1994

Clayton Schenck
Legislative Fiscal Analyst
Office of the Legislative Fiscal Analyst
Room 105, State Capitol
P.O. Box 201711
Helena MT 59620-1711

Dear Mr. Schenck:

I am writing in response to your request concerning the potential use or adoption of a budget methodology to determine present law base adjustments for human services contract budgets. You have asked two specific questions that I will address in turn.

In the November 1993 Special Session, the Legislature enacted House Bill No. 7 as Chapter 12, Special Laws of November 1993. The title to House Bill No. 7 indicated its purpose as follows:

> AN ACT REVISING THE DEFINITIONS OF TERMINOLOGY USED IN STATE BUDGETING; REQUIRING THAT THE EXECUTIVE BUDGET AND THE BUDGET ANALYSIS OF THE LEGISLATIVE FISCAL ANALYST BE BASED ON THE LEVEL OF FUNDING TO MAINTAIN OPERATIONS AND SERVICES AUTHORIZED BY THE PREVIOUS LEGISLATURE; AMENDING SECTIONS 5-12-303 AND 17-7-102, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE.

The amendments to section 5-12-303, MCA, set forth a time schedule for the transmission of budget information to the Legislative Fiscal Analyst by the Office of Budget and Program Planning. Section 5-12-303, MCA, was also revised to require the Legislative Fiscal Analyst to use the base budget, the present law base, and new proposals, as defined in section 17-7-102, MCA, in preparing the budget analysis for the next Legislature. The Office of Budget and Program Planning is required to use these concepts in preparing the executive budget proposal pursuant to section 17-7-123, MCA.

Section 17-7-102, MCA, was amended to define base budget, present law base, and new proposals as follows:

17-7-102. Definitions. As used in this chapter, the following definitions apply:

(1) "Additional services" means different services or more of the same services.

(2) "Agency" means each state office, department, division, board, commission, council, committee, institution, university unit, or other entity or instrumentality of the executive branch, office of the judicial branch, or office of the legislative branch of state government, except for purposes of capital projects administered by the department of administration, for which institutions are treated as one department and university units as one system.

(3) "Approved long-range building program budget amendment" means approval by the budget director of a request submitted through the architecture and engineering division of the department of administration to transfer excess funds appropriated to a capital project within an agency to increase the appropriation of another capital project within that agency or to obtain financing to expand a project with funds that were not available for consideration by the legislature.

(4) "Approving authority" means:

(a) the governor or the governor's designated representative for executive branch agencies;

(b) the chief justice of the supreme court or the chief justice's designated representative for judicial branch agencies;

(c) the speaker for the house of representatives;

(d) the president for the senate;

(e) appropriate legislative committees or a designated representative for legislative branch agencies; or

(f) the board of regents of higher education or its designated representative for the university system.

(5) "Base budget" means that level of funding authorized by the previous legislature.

(6) "Budget amendment" means a legislative appropriation to increase spending authority for the special revenue fund, proprietary funds, or unrestricted subfund, contingent on total compliance with all budget amendment procedures.

(7) "Present law base" means that additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

(a) changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;

(b) changes in funding requirements resulting from constitutional or

statutory schedules or formulas;

(c) inflationary or deflationary adjustments; and

(d) elimination of nonrecurring appropriations.

(8) "Effectiveness measure" means a criterion for measuring the degree to which the objective sought is attained.

(9) "Emergency" means a catastrophe, disaster, calamity, or other serious unforeseen and unanticipated circumstance that has occurred subsequent to the time an agency's appropriation was made, that was clearly not within the contemplation of the legislature and the governor, and that affects one or more functions of a state agency and the agency's expenditure requirements for the performance of the function or functions.

(10) "Necessary" means essential to the public welfare and of a nature that cannot wait until the next legislative session for legislative consideration.

(11) "New proposals" means requests to provide new nonmandated services, to change program services, to eliminate existing services, or to change sources of funding. For purposes of establishing the present law base, the distinction between new proposals and the adjustments to the base budget to develop the present law base is to be determined by the existence of constitutional or statutory requirements for the proposed expenditure. Any proposed increase or decrease that is not based on those requirements is considered a new proposal.

(12) "Priority listing" means a ranking of proposed expenditures in order of importance.

(13) "Program" means a combination of resources and activities designed to achieve an objective or objectives.

(14) "Program size" means the magnitude of a program, such as the size of clientele served or the volume of service in relation to the population or area.

(15) "Program size indicator" means a measure to indicate the magnitude of a program.

(16) "Requesting agency" means the agency of state government that has requested a specific budget amendment.

(17) "University system unit" means the board of regents of higher education, office of the commissioner of higher education, university of Montana at Missoula, Montana state university at Bozeman, Montana college of mineral science and technology at Butte, eastern Montana college at Billings, northern Montana college at Havre, western Montana college of the university of Montana at Dillon, the agricultural experiment station with central offices at Bozeman, the forest and conservation experiment station with central offices at Missoula, the cooperative extension service with central offices at Bozeman, the bureau of mines and geology with central offices at Butte, the fire services training school at Great Falls, the vocational-technical centers at Billings, Butte, Great Falls, Helena, and

> Missoula, or the community colleges at Miles City, Glendive, and Kalispell. (emphasis added)

There are no court decisions interpreting the provisions of the new budgeting methodology. With this background I will address your questions. Your first question is:

> Can a consumer price index be used to determine present law base budget adjustments for human service contracts absent any statutory modifications?

The present law base defined in section 17-7-102(7), MCA, appears to be intended as a budgeting mechanism designed to adjust the level of funding authorized by the previous Legislature to maintain the operations and services authorized by the previous Legislature. This intent can be gleaned from the title to Chapter 12, Special Laws of November 1993. The review of a bill's title is a necessary first step in construing a bill. Gaub v. Milbank Ins. Co., 220 Mont. 424, 715 P.2d 443 (1986). In order to maintain authorized operations and services, the definition of present law base allows a budget to include additional funding based upon changes resulting from legally mandated workload, caseload, or enrollment increases; changes in funding requirements resulting from constitutional or statutory schedules or formulas; and inflationary adjustments. Even though it is couched in terms of "additional funding", present law base also provides for reductions from the authorized level of funding for workload, caseload or enrollment decreases; statutory schedules or formulas; deflationary adjustments; and the elimination of nonrecurring appropriations. Present law base is further clarified in the definition of new proposals contained in section 17-7-102(11), MCA. The definition provides that:

> . . . the distinction between new proposals and the adjustments to the base budget to develop the present law base is to be determined by the existence of constitutional or statutory requirements for the proposed expenditure. Any proposed increase or decrease that is not based on those requirements is considered a new proposal.

Section 53-6-101(6), MCA, provides that the Department of Social and Rehabilitation Services may enter into contracts for the delivery of Medicaid services to individual recipients or groups of recipients. Section 53-6-110, MCA, provides that as part of the information required to be included in the agency program budget submitted to the Office of Budget and Program Planning, the Department of Social and Rehabilitation Services is required to submit a report concerning Medicaid funding for the next biennium. Section 53-6-110(1)(b)(i), MCA, provides that the report is required to include projected increased funding levels. The projections are to identify the effects of trends in unit costs for services, including inflation. These sections specifically authorize contracts for the delivery of services in the Medicaid area and authorize inflationary adjustments to be included in the agency program budget.

Section 17-7-102(11), MCA, provides that a new proposal is a request to provide new nonmandated services, to change program services, to eliminate existing services, or to change sources of funding. The provision of human services, such as Medicaid, does not clearly fall within the meaning of a "new proposal". There is some ambiguity related to the distinction between a new proposal and present law base. The ambiguity arises because the definition of "new proposals" provides that if an expenditure is not a requirement of constitutional or statutory law, it is a new proposal. Medicaid human services contracts are authorized by statute, and an inflationary adjustment is authorized to be included in the agency program budget. The statutory authorizations place a Medicaid human services contract inflationary adjustment more clearly within "present law base" than a "new proposal" when the specific authority to include inflationary adjustments to existing services in the definition of "present law base" is considered.

Sections 13-37-218 and 15-30-101, MCA, define an inflation factor based upon the consumer price index, and the consumer price index is used to adjust certain local government officials' salaries pursuant to sections 7-4-2503 and 7-4-2504, MCA. The consumer price index may be used to determine present law base budget adjustments for Medicaid services contracts absent any statutory modifications. Other human services contracts, such as those authorized for services for the developmentally disabled pursuant to section 53-19-104, MCA, do not have inflation factors specifically provided for in statute. However, the service contracts are statutorily authorized and may include an inflation factor pursuant to the definition of "present law base".

Your second question is:

> What are the ramifications of including a consumer price index in human service contract budgets but not in the present law base?

Article II, section 31, of the Montana Constitution provides that once a contract is entered into, the obligation of the contract may not be impaired by legislative action. The Legislature can no more impair the obligation of a contract entered into by the state than it can the obligation of a contract made between individuals. State ex rel. Savings Bank v. Barret, 25 Mont. 112, 63 P. 1030 (1901). Once vested, the right to compensation cannot be eliminated without constitutionally impairing the contract obligation. Coate v. Omholt, 203 Mont. 488, 662 P.2d 591 (1983). If human service contracts containing an inflationary adjustment in the cost of services are entered into, the contracts will be binding on the state. If a contract is entered into but the inflationary adjustment is treated as a new proposal, the state will have a binding obligation that is treated as a nonmandated service for budget purposes. This budgetary dichotomy could lead to confusion in the budgeting process.

A human services contract inflationary adjustment would not fit cleanly within the definition of a new proposal. An inflationary adjustment is not a new nonmandated service, a change in program service, the elimination of an existing service, or a change in

a source of funding. Although an inflationary adjustment is a proposed increase, it is statutorily authorized, not required. There is ambiguity between the definitions of "present law base" and "new proposals". If a human services contract is entered into and the contract contains an inflationary adjustment, the payment rate contained in the contract will be "required". If the Legislature does not fund the contract, the services provided under the contract would have to be reduced.

If you have any questions or if I can provide additional information, please feel free to contact me.

Sincerely,

Gregory J. Petesch, Director
Legal Services Division

lao 4272gpxa.

1-26-95

Working Group Recommendation Compared to Selected Executive Budget
Present Law Increases for Contracted Human Services

Department/Provider	Fiscal 1996 Executive Proposal Gen. Fund	Fiscal 1996 Executive Proposal Federal	Fiscal 1996 Executive Proposal Total	Fiscal 1996 Working Group Recommendation Gen. Fund	Fiscal 1996 Working Group Recommendation Federal	Fiscal 1996 Working Group Recommendation Total	Fiscal 1997 Executive Proposal Gen. Fund	Fiscal 1997 Executive Proposal Federal	Fiscal 1997 Executive Proposal Total	Fiscal 1997 Working Group Recommendation Gen. Fund	Fiscal 1997 Working Group Recommendation Federal	Fiscal 1997 Working Group Recommendation Total
Social & Rehabilitation Services*												
Developmental Disabilities	$375,429	$215,954	$591,383	$625,715	$359,923	$985,638	$758,100	$433,751	$1,191,851	$1,263,500	$722,918	$1,986,418
Vocational Rehabilitation**	82,170	305,586	387,756	38,326	106,106	144,432	123,565	444,023	567,588	77,610	214,866	292,476
Visual Services**	8,648	28,930	37,578	4,637	10,045	14,682	13,262	42,034	55,296	9,389	20,341	29,730
Family Services*												
Foster Care	175,819	46,934	222,753	324,089	86,514	410,603	354,275	94,572	448,847	702,929	187,644	890,575
Therapeutic Group Care***	0	0	0	40,289	92,854	133,143	0	0	0	83,581	186,034	269,615
Chemical Dependency	3,190	0	3,190	0	0	0	6,396	0	6,396	0	0	0
Big Brothers/Sisters	2,729	0	2,729	0	0	0	5,498	0	5,498	0	0	0
Domestic Violence	1,665	0	1,665	0	0	0	3,406	0	3,406	0	0	0
Corrections & Human Services												
Community Mental Health****	123,642	0	123,642	206,070	0	206,070	347,340	0	347,340	578,900	0	578,900
Pre-Release Centers****	67,478	0	67,478	112,463	0	112,463	143,515	0	143,515	239,192	0	239,192
Total	$840,770	$597,404	$1,438,174	$1,351,589	$655,443	$2,007,032	$1,755,357	$1,014,380	$2,769,737	$2,955,101	$1,331,803	$4,286,906
Working Group Over (Under) Executive Budget				$510,819	$58,039	$568,858				$1,199,744	$317,423	$1,517,169
Biennial Difference										$1,710,563	$375,462	$2,086,025

* SRS and DFS include rate increases for day care providers of $513,819 total funds ($142,482 general fund) over the biennium. The rate increases are not included in this table for comparison, because day care rates are governed by federal regulations that require states to set rates at the 75th percentile of the market rate based on a survey of day care providers.

**The Executive Budget include 6.5% annual increases for tuition costs paid from vocational rehabilitation and visual services benefits. The working group recommendation includes a 2.5% adjustment for all benefit payments.

***The federal medicaid match would be budgeted in SRS, but is shown in DFS for ease of comparison.

****Community mental health center and pre-release center rate increases are calculated from the present law budget including all present law budget adjustments. Other provider rate increases in the Executive Budget are calculated on fiscal 1994 actual costs and annualization of the 1995 biennium rate increase where applicable. Pre-release center rate increases include funding sufficient to cover rate increases for new proposals that add 163 new beds.

Prepared by LFA staff.
25-Jan-95
C:\DATA\LOTUS\SRS\PROVRATE\EXECCOMP

EXHIBIT 3
DATE 1/26/95
HB

EXHIBIT 4
DATE 1/26/95
HB

1-26-95

Community Day Care & Enrichment Center
310 North 27th Street
Billings, Montana 59101
406-245-6470

January 25, 1995

Dear Legislator:

The child care reimbursement rate for state paid child care programs must be increased to the 75th percentile. Montana's children from low and moderate income families will not have equal access to child care if this rate increase does not happen. Child care providers cannot continue to loose money at the huge rate that they do on state paid children. At Community Day Care and Enrichment Center full time infant care costs $20 per day. For a state paid infant, the reimbursement rate if $13 per day. Needless to say, a loss of $7 per day on every state paid infant is means that less state paid infants will have access to high quality programs.

For children over the age of 2, the state reimburses $11 per day. The average full time daily rate for children over the age of 2 is about $14.50 per day. Thus, we are loosing $3.50 per day on each state paid child over the age of 2.

In addition, Montana risks loosing federal Child Care and Development Block Grant (CCDBG) dollars and At Risk Child Care dollars unless state paid programs are brought up to the 75th percentile.

Please approve the budget request from the Department of Family Services and the Department of Social and Rehabilitative Services to raise state reimbursement rates.

Thank you for your attention to this important issue.

Sincerely yours,

Nancy Mahe

"Serving the community for over 20 years"

EXHIBIT 5
DATE 1-26-95
HB

ASSUMPTIONS MADE FOR EXAMPLE

All Students are present 20 days
Staff is used to maximum adult/child ratio
All WAGES ARE BASED on MINIMUM WAGE
Payroll Burden only includes:

FICA
SUTA
FUTA
OFLT
WORKER'S Comp

} = 10.5% of WAGES

Building Space is calculated on 35 sq ft per student, no factor was calculated for space not allowed to be figured in the 35 sq ft per student. This space includes entry ways, halls, bathrooms, kitchen, storage space, office.

Example 1.

Assumes 22 state paid children are present on a daily basis

Building cost for rent or lease is calculated at $1.70 per student x 20 days, at this rate space would cost $748.00 per mo.

Food cost is calculated at $1.75 per student per day. $1.00 for Lunch
$.375 for Snack AM.
$.375 for Snack PM.
$1.75 per day per student

EXAMPLE (1)

State RATE under 2yrs $13.00 per day
" " over 2yrs $11.00 per day

INCOME PER DAY :

staff ratios			
4	under 2yrs	4 infants x $13	52.00
8	2+3yr olds	8 (2+3yr olds) x $11	88.00
10	4+5yr olds	10 (4+5yr olds) x $11	110.00
		22 children Total Inc	250.00 per da

1 staff for infants
10 hr @ 4.25 — 42.50
1 staff for 2+3yr olds
10 hr @ 4.25 — 42.50
1 staff for 4+5yr olds
10 hr @ 4.25 — 42.50
1 support staff
support would include:
office
cooking
janitorial
maintenance
secretarial
8 hrs @ 4.25 — 34.00

Total WAGES 38hr @ 4.25 — 161.50
Payroll burden 10.5% of WAGES — 16.96
Total WAGES + payroll burden — 178.46

Total Income – WAGES + BURDEN — 71.54

Building space — - 37.40
22 students @ 1.70 per day
FOOD COSTS — - 20.50

EXAMPLE #1

NET LOSS (4,36)

Please keep in mind this net loss does not take into account all expenses related to cost of care.

Expenses not included are as follows!

- phone
- utilities
- insurance
- Staff training
- Equipment
- Supplies
  - including ~~A~~ paper products
    - Kleenex
    - Toilet paper
    - paper towels
  - A Cleaning products
  - A teaching supplies
- Repairs & maintenance
- Staff turnover

The above expenses are currently being subsidized by non-state subsidized parents who purchase child care. These expenses are also subsidized by childcare providers who are not adequately paid and are provided no benefits. The majority of all providers in Montana have no paid health insurance, no ~~p~~d vacation or sick leave.

EXHIBIT Exh 6
DATE
HB 1-26-95

MCCA

Montana Child Care Association

1. The bottom line is always money. Perhaps, MCCA should start by looking at legislative platforms which relate to that bottom line. The first legislative issue to look at is the REIMBURSEMENT RATE FOR STATE PAID CHILD CARE PROGRAMS.

Our state pays for child care through many programs. Contracts are written between the parents and providers after a voucher is given by a Resource and Referral staff person.

Contracts are given to registered, licensed, and legally unregistered providers. Child care programs that the state of Montana has funding responsibility for are:

a. transitional child care

b. child protective services child care

c. refugee child care

d. Block Grant Child Care

e. JOBS Child Care (with sub-programs)

f. At Risk Child Care

g. Self Iniatied Child Care

No provider in our state has received an increase in the reimbursement rate for state paid child care for over 2 years. From 1991 to date babies that were in child care are now in pre-school. Children that were in pre-kindergarten child care are now in after school child care. Their parents have successfully completed vo-tech programs, business colleges, beauty school, received a college degree. Other parents are working on issues that keep them from being employable. However, the same child care providers are still open for 11 to 12 hours daily caring for young children without any increase in the state paid reimbursement rate.

Child care workers are in the lowest 10th of all wage earners with an average salary of $5.35 per hour in 1988 well below janitors. They frequently receive no health insurance or other benefits, which makes child care an even less attractive job. The personnel come and go at a rate of 41 percent per year at an average day care center. Wages are the primary factor in this turnover rate.

For young children whose child care is paid for by the state, the choices available to parents are shrinking. Many providers are asking these parents to pay the difference. Thus, if the state reimburses the provider at $11 per day, the provider is sometimes asking the parents to make up the difference of what it charges perhaps$3, $5, $7 a day compared to the state reimbursement rate. Some providers are simply saying NO to these families. They cite poor payment collection or that these families bring other issues to day care that seem to need a social worker's expertise. Thus, our neediest children are being discriminated against in child care choices.

2. State reimbursement for days present. Providers who accept state paid child care are again hurt because the state only pays for actual days of care for part time contracts. For full time contracts, providers are limited in the days of care that they can claim if a child is absent due to illness or other reasons. Thus, in the Self Initiated Program, parents who are attending college or vo-tech have vacation days. Providers cannot decrease their cost of doing business because one or two children are gone. However, the state does not pay for care. Again, many providers are asking parents to make up the difference or simply saying NO.

Please read the November 1993 CHILD CARE EXCHANGE, article

Be or Not to Be:
arges for Absences

greatest amount of ink in the cies we reviewed was consumed aining to parents how and why are charged even when the ren are absent. Clearly, this is rea where centers have experi- d a hard sell. Therefore, it is ortant that the policy statement bsences be clear and persuasive. e are some of our favorite mples:

are prepared for each child each day ther the child attends or not. There l be no refunds for days absent. h family will be allowed two weeks of nteeism with no charge. Iester's Creative Schools, Inc., ensboro, North Carolina

on is the same every payment rdless of days missed due to illness lidays. Think of this as a yearly itment for your child, not in terms ys of attendance. — Breezy Point Day School, Langhorne, Pennsylvania

To assure that we can provide the highest quality of services, it is essential that the financial status of the center remain stable. Expenses cannot be sufficiently reduced to overcome losses due to absenteeism. Therefore, we must require that each family financially support space guaranteed for your child(ren) even if the child is absent. —Pow Wow Child Development Centers, Johnson City, Tennessee

Please note that tuition must be paid in full without deduction for absences. This is because our staffing and other operational expenses are arranged on the basis of fixed enrollment levels and must be met on a continuing basis. Few of the operating costs of the facility are eliminated when a particular child is absent. — HeartsHome Early Learning Center, Houston, Texas

Centers struggle to develop absence policies that meet the centers' needs for financial stability, yet are sensitive to the needs of families. About half the centers provide discounts or credits for family vacations and/or extended periods of illness. Here are some of the clearer, more creative policies on "approved absences":

Families enrolled in our 12 month program prior to June 1st of that year are entitled to one free week of vacation. This vacation week is not transferable from year to year. . . . This vacation week is offered on a Monday through Friday service week only. — Rainbow Express Preschool, Lansdale, Pennsylvania

There will be no credit for absences of one week or less. A $45 non-attendance fee will be charged for the second consecutive week of absence and up to four weeks. Your child's place will not be held after the fourth week. — Another Generation Preschool, Sunrise, Florida

The vacation allotment has already been figured into your child's contract at the time of enrollment. Your child's regula rate remains the same every month, regardless of when he/she goes on vacation. —Gretchen's House, Ann Arbor, Michigan

If your child is absent from the center three or more days in one week due to sickness, conditions beyond your control, or preapproved vacation time, your tuition charge will be reduced by 40%. — Children's World Learning Center, Euless, Texas

Some centers waive fees for absences due to a variety of other causes: "in patient hospitalization," "death in the immediate family," "court-appointed visitation," "center closings due to inclement weather" (only two centers out of the 150+ waive fees for this reason), "parents on maternity leave," and absences "at the request of your doctor."

January 24, 1995

To Whom It May Concern;

I am writing this letter today to inform you that my Child care center has informed me that they can no longer keep taking my children for the rate the State pays. This is going to cause parents in my position to go on Welfare. I cannot afford to pay the full rate. I am a single Mother trying to raise two children ages 3 and 5. I have been working a full time job and for the past three years have not even been able to afford my own home. I believe you need to look at the rates Child care centers are able to get and at least meet this rate. $11.25 is not even heard of when looking for Child care and if the center quits taking State paid children at this rate, I do believe you will see many more families on Welfare. Does this make sense to you? If this happens I personally will be writing a letter on the System to Congress. Possibly if enough people did this maybe the rich folks up there would listen to the common low paid person trying to survive.

Sincerely,

Sharon Whitson

Sharon Whitson

1131 YALE AVE
Billings, MT
406-256-6450

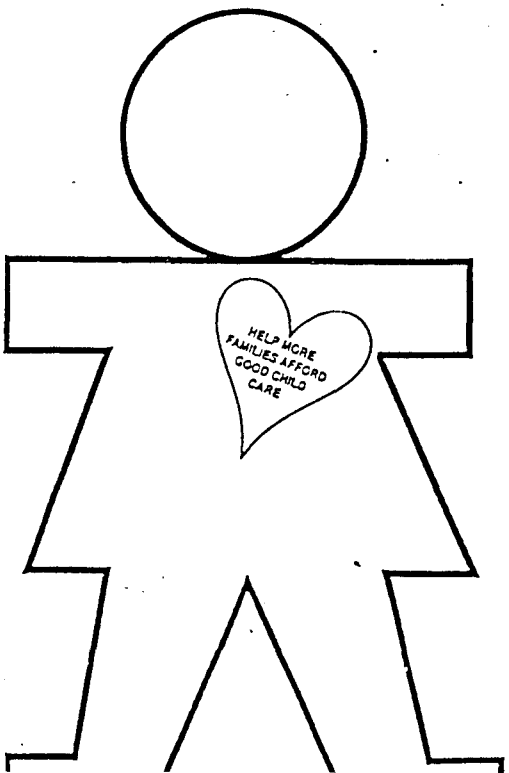
January 25, 1995

Dear Montana Legislator:

My child care is paid by the state of Montana. When I was looking for child care, I had difficulty finding a provider who would take a state paid contract. Providers said that they lost money on state paid children. The reimbursement rate paid for my child from the state of Montana is significantly less than the rate that providers charge other parents.

Please support the increase on the state reimbursement rate to the 75th percentile. Thank you.

Sincerely yours,



The state rate is much lower than the providers. If the state does not increase their rates, I will not be able to afford to keep my child in daycare, therefore I would have to quit my job and go on welfare. Full time. Please take this into consideration, as there are many parents in the same situation as myself.

Sincerely, Vollmer
Tanya Vollmer
1127 Rice
Billings, Mt. 59105
(406) 254-9304

January 25, 1995

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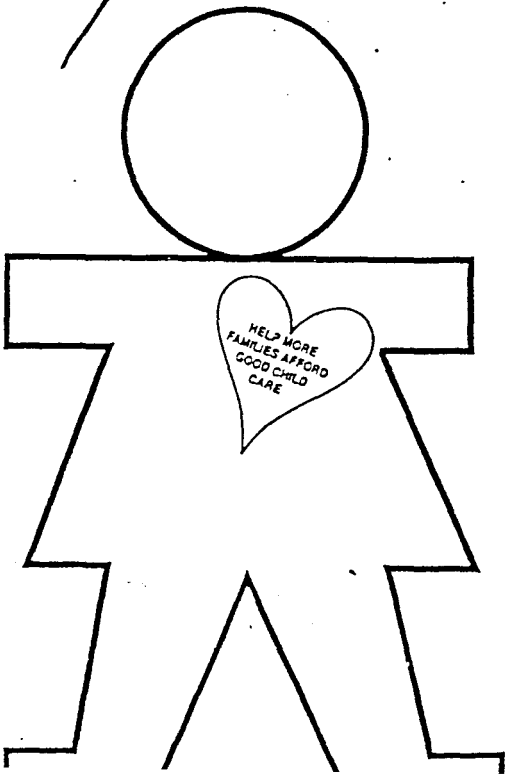
My child care is paid by the state of Montana. When I was looking for child care, I had difficulty finding a provider who would take a state paid contract. Providers said that they lost money on state paid children. The reimbursement rate paid for my child from the state of Montana is significantly less than the rate that providers charge other parents.

Please support the increase on the state reimbursement rate to the 75th percentile. Thank you.

Sincerely yours,

618 No 25th
Billings, MT
59101



January 25, 1995

Dear Montana Legislator:

My child care is paid by the state of Montana. When I was looking for child care, I had difficulty finding a provider who would take a state paid contract. Providers said that they lost money on state paid children. The reimbursement rate paid for my child from the state of Montana is significantly less than the rate that providers charge other parents.

Please support the increase on the state reimbursement rate to the 75th percentile. Thank you.

Sincerely yours,

Ms. Dale M. Summers
1810 Virginia Lane
Billings, MT 59102

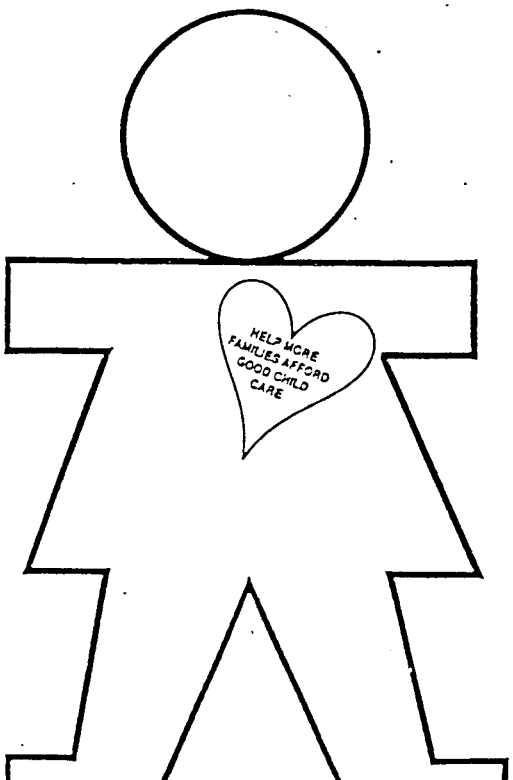


EXHIBIT SVH 7
DATE 1-26-95
HB

"JeNae's Family"
Daycare Home

JeNae T. Lay

Representative Cobb, Ladies and Gentlemen;

My name is JeNae Lay. I own and operate a registered child-care business in Helena, and have for the past ten years. I'm a past president of the Helena Child Care Association, and currently sit on the Board of Directors of the Montana Child Care Association.

I am here today with an urgent request that you , as a committee, recommend funding State-paid child care at the 75th percentile rather than the 71st percentile as propcsed.

I operate a group daycare home, and am registered to care for 12 children. Four of my young clients are presently on some form of State-assisted payment.

I see first hand the struggle it is for the mother of 3 of these kids, the sole support of the family, to keep up with even a portion of the difference between what the State pays and what I charge. I subsidize part of the fee, but when their funding source changes in March, I will no longer be able to make up the difference. It presents quite a dilemma, which is by no means unique to my facility.

I earn an average of $3.27/hr.(before taxes) and am simply not able to operate with so many of my available slots filled by clients who need more help than I can give. Many facilities are forced to limit or eliminate slots for low-income clients.

State reimbursement of childcare at the 75th percentile would be a strong step in bridging the gap between what it takes to keep a good facility open and what low-income families can afford to pay. This is <u>key</u> to any welfare reform plan.

It would also keep other vital Federal programs such as the Child Care Block Grant available to Montana's low-income families and the child care homes and centers who serve them. As a grant recipient, I can testify to the tremendous boon this is for both parents and providers. To risk losing access to these funds is unthinkable.

I invite you to visit my facility...located a short 7 blocks from this building...to meet and talk with parents and children. They'll help you understand how important that 4% increase is. Then you may have milk and cookies and a turn at the Lego table.

Thank you.

JeNae Lay

2230 5th Ave. Helena, MT 59601 443-4484

EXHIBIT EX14 8
DATE 11-26-93
HB

LEAVE NO CHILD BEHIND

Don't you ever wonder where the good ideas will come from?
Don't you feel alive when you hear wise and funny lines?
Don't you find the best things come from unexpected sources,
Which is all the reason needed, to leave no child behind.

Don't you wish that every child had enough food for eating?
Health care when they need it and safety all the time?
Don't you think we'd all be better off if kids were cared for,
Which is all the reason needed, to leave no child behind.

We will leave .....no child behind.....
Whether fast or slow or in between, we will take the time
So that every child knows they're the one we had in mind.
We will leave .....no child behind....

Don't you sometimes feel that you are stuck in what's required?
Don't you cherish moments when you rise above the grind?
Don't you love it when the children lead you pass you planning
Which is all the reason needed to leave no child behind.

Do you know the saying that a little child will lead them?
That line came from Isaiah and a time he prophesied.
Don't you start to wonder.....is that child here in your classroom?
Which is all the reason needed to leave no child behind.

Don't you sometimes watch and wonder what they'll grow up to..
The jobs and homes, the struggles and happiness they'll find?
Don't you hope they will raise their own kids to be loving,
Which is all the reason needed to leave no child behind.

Tom Hunter 1994

Mr. Chairman and Members of the Human Service Committee;

My name is Jeanette Thomas, Director of Rocky Mountain Preschool and Daycare. I am here to testify as a proponent of a rate increase for state paid daycare children.

We are licensed for 44 children, who may be on site at any given time....however we have 66 enrolled, which consist of full time, part-time and drop-ins. Of that 66, 14 are state pay. The children in our care range from ages 2 through 6. It costs $150,000 to operate our daycare per year, with approximately 70% going to personnel costs. By state standards, we are required to have a ratio of 8 students to 1 teacher, so our program is very staff intensive. Operating costs are fixed, while revenues are a variable. The revenue mix has to have a high number of private pays at $275 per month plus meals, in order to pay monthly expenses. State sponsored children pay $11 per day, which totals $220 per month. I would propose that state pay be raised to $13.75, so that low-income children have an equal opportunity to the same quality daycare as any other child. Simply said, the higher the reimbursement, the more low-income children we can serve. If the rate of reimbursement is not raised, it will come to pass in the not too distant future, that providers will be forced to exclude state-pay children from their programs, or have parents pay the difference. We simply can not survive financially. As an example, my daycare at the present time is running an approximate deficit of $1000 per month. It is not a coincidence that nearly $800 of that is the difference between what the state pays and what our actual tuition is, on the 14 state pay children that I am now carrying. Up to this point, Rocky Mountain Development Council has subsidized the state paid children. However they can

not continue to do this because of senior meals and transportation, not to mention the fact that they may lose their CSBG money.

We have more single parent families than ever before in the history of our culture and most of these single parents that we serve are "pink-collar" workers . These parents have less free time than ever and they often must turn over even their youngest of children to strangers and hope for the best. We have reached a time when this problem must be recognized.

Our society actually has a 3 tier child-care system....the affluent get the best.....the poor get second best, because of subsidies, and the lower middle class, get what is left. They do not receive assistance, nor do they earn enough to be able to afford quality daycare. I am afraid if child care providers are not given a raise for state pay children, these children will soon join the ranks of the "working poor", who are in a terrible financial bind at this time. I receive calls almost daily from people who are desperate to get their children into our daycare, only to discover that they just can not afford the tuition. They do not qualify for assistance, but neither do they earn enough to pay the full amount of tuition.

The demand for daycare, far out-weighs the supply, at this time. There is a 50% turn over in child care providers, every single year. I agree completely that welfare reform is a definite necessity.....however as with the rebuilding of any structure, we need to be absolutely sure that our foundation is firm. Childcare is a cornerstone of that foundation. If we are to get people back to work, we must provide for the children first.

I feel that every child in Montana is entitled to a safe, clean ,nurturing environment. Every parent who needs to work should have peace of mind, knowing that their child is guaranteed

a licensed quality provider. I feel that the childcare issue has reached a crisis level , not only in Montana, but also on a national standard .

It is time for mothers to demand that this is a national issue, not just a women's concern....it is time for fathers to insist that all children count, not just their own.....it is time for the business community to acknowledge that in a modern-day America, work and family issues are inseparable, and it is time for government leaders to ensure that children.....All children...get the care they deserve. NO CHILD SHOULD BE LEFT BEHIND.

I encourage the committee and the legislature to do all you can to establish a rate structure that allows low income and low wage earners to access quality daycare so they can seek and hold gainful employment.

Our future is in the hands of the children..... today their future is in your hands.

Respectfully Submitted By:

Jeanette Thomas

Jeanette Thomas

EXHIBIT 2&H 9
DATE
HB 1-26-95

GF CC

GREAT FALLS CAPITAL CORPORATION

BUSINESS ACQUISITIONS & INVESTMENTS

January 18, 1995

Representative John Cobb
Augusta, Montana 59410

Dear John:

I want to take this opportunity to express our appreciation to you for meeting with various members of the non-emergency medical transportation providers in the state. We have organized into a non profit association to be known as: The Montana Passenger Carrier Association (MPCA).

Per your request I am including some information and our request for funding and rate adjustment. This request was unanimously endorsed by our board of directors.

We are requesting that those providers of medicaid non-emergency medical transportation which represent provider codes AO130, Z0007, Z0008, Z0009 and Z0010 receive a rate change from the current $10.06 one way and $17.61 round trip (intown) and $.63/loaded mile and $.32/unloaded mile. We as providers simply cannot continue to operate the transportation of medicaid wheelchair and medical social transportation and comply with ADA guidelines plus the increase in operating costs which we all have experienced over the last 5 years at a rate structure which was introduced in 1990 and has not changed. Our request we believe is reasonable when compared with rate structures in neighboring states. Currently Utah pays a base rate of $30 one way/$40 round trip plus $.90 per loaded mile. Idaho pays $47.30 base rate and $1.36 per loaded mile. North Dakota pays submitted prevailing rates as billed by private carriers.

In view of this information our request is as follows:

A base rate in town of $40 per trip destination (one way) - no mileage.
A base rate of $40 plus $1.50/loaded mile - rural transport.

Current and projected costs are as follows:

# of trips	Year	Cost	Project Cost	Increment Increase
3981	1993	$55,744*		
4454	1994	$62,360*		
7200(est)	1995(est)		$100,000	
8200(est)	1996		$325,000	$225,000
9200(est)	1997		$375,000	$275,000
Total additional funding request for next two years:				$500,000

*Provided by Terry Kranz - SRS- medicaid

EXHIBIT Exhibit 5
DATE 1-26-95
HB

JANUARY 24, 1995

Institutions Committee, Rep. Marge Fisher, Chair
Human Services Committee, Rep. John Cobb, Chair
House of Representatives Judiciary Committee, Bob Clark, Chair
Capital Station
Helena, MT 59620

Dear Members of the Institutions Committee, Human Services Committee, and the Judiciary Committee:

As a citizen of Montana and most certainly a tax payer of Montana. We very strongly object to any closure of Eastmont here in Glendive.

As you know the biggest share of the residence at Eastmont can not take care of themselves. I realize this is a very sad affair. However this is a fact of life and we have to deal with it. We feel that Eastmont is doing just that.

Looking at the closure of Eastmont and putting these folks in group homes is an insane idea. One has to look at the practical side of it from folks who live there.

Sincerely,

Richard and Rita Reynolds
Box 682
Glendive, MT 59330
687-3728

HOUSE OF REPRESENTATIVES
VISITORS REGISTER

Human Services & Aging SUB-COMMITTEE DATE 1-26-95

BILL NO. _____ SPONSOR(S) _____

PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	Support	Oppos
Steve Yeakel	MT Council for Maternal & Child Health	-Day/Child Care	
Brenda Williams			
Lynda Hart			
Kate Cholewa	MT Women's Lobby		

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

HR:1993
wp:vissbcom.man
CS-14

HOUSE OF REPRESENTATIVES
VISITORS REGISTER

Human Services & Aging SUB-COMMITTEE DATE 1-26-93

BILL NO. _____ SPONSOR(S) _____

PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	Support	Oppose
Ryan Schulking	Job Connection, Inc.		
Ray Mckenney	U of Mont.		
[illegible]	Mont Power		
[illegible]	Praxis Systems		
[illegible]	SRS/VR		
[illegible]	SRS/VR		
Rick Thompson	Helena Area Programs Inc		
Richard O. Keen	Great Falls Pre-Release Center		
Charlie T. Tooth	MADS		
Doyle Ewell	Milk River Inc Citizen		
Mike Mathews	Yellowstone Co		
Chris Volinkaty	CDC		
Sylvia Danforth	DEAP		

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORM ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

HR:1993
wp:vissbcom.man
CS-14

HOUSE OF REPRESENTATIVES
VISITORS REGISTER

Human Services & Aging SUB-COMMITTEE DATE 1-26-93

BILL NO. _____ SPONSOR(S) _____

PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	Support	Oppose
Ann Lynel	HCCA		
Janet Croy	MCCA MT Child Care Assoc		
Marcy Maki	MCCA		
JeNae Lay	MT. Child Care Assoc.		
Janet Brooke	MT Child Care R&R Network		
Andree Larose	Montana Advocacy Program		
Mary McCue	Mt Clinical Mental Health Counselors Assn		
Beck F-Sieben	DCS		
Linda Fillinger	SRS Child Care		
Jenny Knight	R&R	✓	
Jeanette Adamson	Preschool & daycare	✓	
Zoa [illegible]	[illegible]	✓	
Mary Alice Cook	Advocates for MTs Children		

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

HR:1993
wp:vissbcom.man
CS-14