INSTITUTIONAL REIMBURSEMENTS

Revenue Description

The Montana Department of Public Health and Human Services (DPHHS) operates facilities to treat persons with developmental disabilities and mental illnesses. The Montana Developmental Center in Boulder (MDC) serves persons with developmental disabilities. The Montana State Hospital in Warm Springs (MSH) and the Montana Mental Health Nursing Care Center in Lewistown (MMHNCC) treat persons with severe mental illnesses.

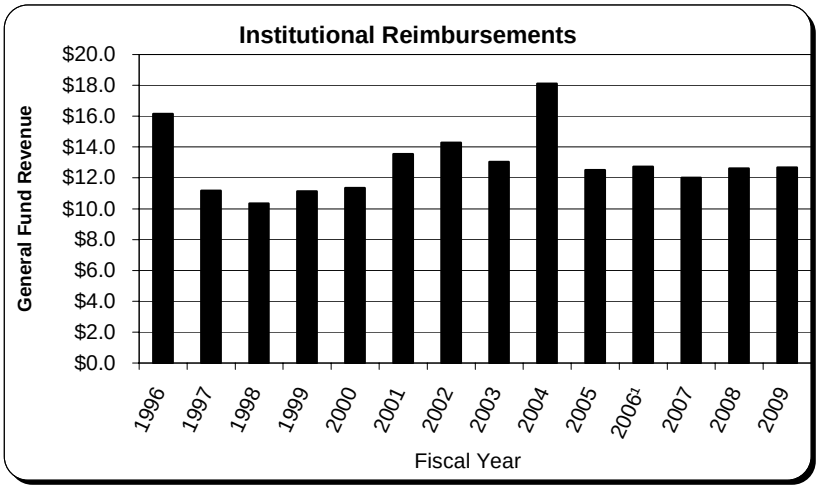
The department charges patients for treatment based on cost and on their ability to pay (53-1-405, MCA). Patients and their families, patients' insurance, Medicare, and Medicaid pay these charges. At MDC and MSH, payments go first to repay the institutions' mortgages (90-7-220 and 221, MCA). After the mortgage obligations are met, payments for care at the institutions are deposited in the general fund.

Historical and Projected Revenue

Table 1 shows actual institutional reimbursements going to the general fund for FY 1996 through FY 2006, and projections for FY 2007, FY 2008, and FY 2009.

Table 1
Institutional Reimbursements - General Fund Revenue
($ millions)

Fiscal Year	General Fund	Percent Change
A 1996	$ 16.142	-1.91%
A 1997	$ 11.158	-30.88%
A 1998	$ 10.335	-7.38%
A 1999	$ 11.136	7.75%
A 2000	$ 11.345	1.88%
A 2001	$ 13.554	19.47%
A 2002	$ 14.283	5.38%
A 2003	$ 13.043	-8.68%
A 2004	$ 18.110	38.86%
A 2005	$ 12.509	-30.93%
A 2006[1]	$ 12.728	1.75%
F 2007	**$ 12.013**	**-5.62%**
F 2008	**$ 12.608**	**4.96%**
F 2009	**$ 12.671**	**0.49%**



[1]FY 2006 is revised collection amount to include reimbursement of Medicare Part D expenses.

Over the time period from FY 1996 through the present, there have been significant changes in both the institutions and in the way their costs are paid. In FY 1997 a

mental health managed care system was implemented for MSH and MMHNCC. The managed care contractor billed patients' families, insurance companies, Medicare, and Medicaid, and then deposited the funds in a special revenue account for the two institutions. This caused the large drop in institutional reimbursements to the general fund in FY 1997. The managed care contract was terminated in FY 2000, but the flow of funds remained the same.

New facilities have been built at MDC and MSH. Mortgage payments for these new facilities began in 1995 for MDC and in 1997 for MSH.

The MSH became Medicare-certified. This allows it to bill Medicare for more of eligible residents' expenses than it was able to in the past. While only about 5% of patient days are eligible for Medicare reimbursement, this significantly increased total reimbursements to MSH, beginning late in FY 2001. In FY 2004, the department received additional revenue from billing Medicare for services in previous years. However, in FY 2005, the Medicare reimbursement formula for MSH was changed and the department was required to refund some payments it had received in FY 2004.

Average populations have changed at some of the institutions. DPHHS moved some residents from one institution to another and moved some residents back into their communities in assisted-living programs or other arrangements. At the same time, court-ordered admissions have increased. As part of a lawsuit settlement, DPHHS agreed to move some of the residents of MDC to assisted-living facilities in their communities. Since these facilities are not state institutions, the state will not receive reimbursement for services at them. Also at MDC a separate, secure unit has been established. Services provided through this unit are not eligible for federal reimbursement through Medicaid.

Legislation passed by the 2003 Legislature (HB 722 and HB 743) significantly affected reimbursements by making state institutions subject to state health care facility taxes. These taxes, which are part of the cost basis for Medicaid reimbursement, increased reimbursements. Also, HB 727 closed Eastmont at the end of December 2003. This reduced reimbursements beginning in FY 2004. Through FY 2003, Medicaid payments for MSH and MMHNCC were deposited in a special revenue account. HB 121 requires that they be deposited in the general fund.

In mid-2004 the DPHHS and the federal Indian Health Service (IHS) began renegotiating the reimbursement policy for services provided by state facilities for individuals covered by the IHS. During the renegotiation the IHS has not made payment for state services, thereby reducing institutional reimbursements.

Forecast Methodology and Projection Calculation

At each institution, there are up to five sources of reimbursement for patients' costs: patients and their families; insurance; Medicare; Medicaid; and the Office of the Public Defender. There are four steps to estimating general fund receipts: 1) estimating daily reimbursement rates for each type of reimbursement at each institution; 2) estimating the population and number of care days for which each institution will be reimbursed; 3) multiplying the reimbursement rates by the number of care days to obtain reimbursement revenue; and 4) subtracting the institution's mortgage payments to derive the general fund revenue.

Step 1: Average Daily Reimbursements

The possible reimbursement sources are payments from patients and their families, insurance, Medicare, and Medicaid. Residents and their families are billed by DPHHS based on cost and their ability to pay. For adults in long-term care, the primary resource for these payments is Supplemental Security Income (SSI) disability payments. SSI and private reimbursement rates are based upon estimates provided by DPHHS. For each of the institutions, Table 2 shows the SSI and private reimbursement rates from patients and their families per day in FY 2006 and forecast reimbursement rates through FY 2009.

Table 2
Average per Day SSI and Family Reimbursement

Fiscal Year	MDC	MSH	MMHNCC
A 2006	$10.67	$14.95	$24.81
F 2007	**$10.83**	**$15.05**	**$24.99**
F 2008	**$10.99**	**$15.27**	**$25.37**
F 2009	**$11.16**	**$15.49**	**$25.75**

Table 3 shows the average insurance reimbursement per day for FY 2006 and the forecast average reimbursement for FY 2007 through FY 2009. These rates are insurance reimbursements for a few covered residents divided by the total number of care days for all residents, most of whom have no applicable coverage. The average amount of reimbursement for insurance is based upon reimbursement from insurance in FY 2006, adjusted for increases in the consumer price index.

Table 3
Average per Day Insurance Reimbursement

Fiscal Year	MDC	MSH	MMHNCC
A 2006	$0.04	$6.61	$1.01
F 2007	**$0.04**	**$6.77**	**$1.04**
F 2008	**$0.04**	**$6.90**	**$1.05**
F 2009	**$0.04**	**$7.00**	**$1.07**

Table 4 shows Medicare reimbursements per care day in FY 2006 and estimated Medicare reimbursements per care day for FY 2007, FY 2008, and FY 2009. Medicare provides coverage for medical costs for the aged and disabled. Medicare rates are set for each fiscal year by the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration) using a formula that depends on medical cost inflation, past payments, growth in the number of persons covered, the type of health care service received, and the state and county where it is received. Medicare payments per day are based upon information provided by DPHHS.

Table 4
Average Per Day Medicare Reimbursement

Fiscal Year	MDC	MSH	MMHNCC
A 2006	$0.27	$24.41	$6.29
F 2007	**$0.27**	**$23.12**	**$12.00**
F 2008	**$0.27**	**$23.05**	**$12.00**
F 2009	**$0.27**	**$23.12**	**$12.00**

In mid-FY 2006 Medicare Part D coverage of prescription drugs began. Medicare Part D reimbursement of prescription drugs accounts for the increase between FY 2006 and FY 2007 at MMHNCC, during which Medicare Part D drug reimbursement will be in effect all year.

Table 5, on the next page, shows the daily reimbursement rates, the federal share of costs, federal ancillary payments, and the net Medicaid reimbursement rates. The information on which the forecasts in Table 5 are based was provided by DPHHS. Daily reimbursement rates for Medicaid are set at the beginning of each biennium. The rate for the first year of the biennium is set equal to the difference between the full daily cost of care and expected reimbursements from other sources. For the second year of the biennium, the same formula is used, but rates for the second year are limited to 102.6% of the first year's rates.

Medicaid pays costs that residents cannot. Therefore, Medicaid reimbursements per day equal the full cost rate less the patient and family reimbursements per day shown in Table 2.

Medicaid is a joint federal-state program, and only the federal portion comes to the state as a net reimbursement. The federal government pays a fixed share of the reimbursement for each care day. Medicaid also pays some ancillary service costs that are not on a daily basis, such as medications. Medicaid payments per day are based upon information provided by DPHHS.

Table 5
Federal Medicaid Reimbursements

Fiscal Year	Medicaid Full Cost Rate		Patient Payment per Day		Medicaid Daily Rate		Federal Share		Ancillary Payments		Federal Medicaid Daily Rate
----------Montana Developmental Center----------											
F 2007	$499.05	-	$10.83	=	$488.22	x	69.47%	+	$0.94	=	$340.11
F 2008	$668.93	-	$10.99	=	$657.94	x	68.68%	+	$0.96	=	$452.83
F 2009	$674.78	-	$11.16	=	$663.62	x	68.41%	+	$0.97	=	$454.96
----------Montana State Hospital----------											
F 2007	$23.95	-	$15.05	=	$8.90	x	69.47%	+	$0.00	=	$6.18
F 2008	$24.24	-	$15.27	=	$8.97	x	68.68%	+	$0.00	=	$6.16
F 2009	$24.53	-	$15.49	=	$9.03	x	68.41%	+	$0.00	=	$6.18
----------Montana Mental Health Nursing Care Center----------											
F 2007	$244.90	-	$24.99	=	$219.91	x	69.47%	+	$10.14	=	$162.91
F 2008	$248.57	-	$25.37	=	$223.20	x	68.68%	+	$10.14	=	$163.43
F 2009	$252.30	-	$25.75	=	$226.55	x	68.41%	+	$10.14	=	$165.12

Step 2: Population

Table 6 shows projected populations for FY 2007, FY 2008, and FY 2009, based upon information provided by DPHHS. As can be seen from the table, DPHHS expects the number of residents at both the MSH and the MMHNCC to be stable from FY 2007 through FY 2009. The average number of residents at the MDC is expected to decrease in FY 2008 and FY 2009 compared to FY 2007.

Table 6
Forecast Institutional Populations
Average Residents

Fiscal Year	MDC	MSH	MMHNCC
F 2007	73.0	186.1	80.2
F 2008	66.0	186.1	80.2
F 2009	66.0	186.1	80.2

Step 3: Reimbursements

Private reimbursement for a fiscal year is the average daily reimbursement times the number of care days. Medicaid reimbursement for a fiscal year is the average daily reimbursement times the number of Medicaid eligible residents. Care days are based on the average number of (eligible Medicaid) residents times 365 days in a year (366 in leap years). Tables 7 through 9 bring together the reimbursements by type for each institution and show the calculation of total reimbursements for each institution. The tables show non-Medicaid and Medicaid reimbursements separately because not all residents are eligible for Medicaid Table 7 shows total reimbursements for MDC.

Table 7
Forecast Reimbursements, Montana Developmental Center

Fiscal Year	Non-Medicaid Care Days		Non-Medicaid Average Daily Reimbursement		Medicaid Care Days		Medicaid Average Daily Reimbursement		Total
F 2007	26,645	x	$11.14	+	22,782	x	$340.11	=	$8,045,038
F 2008	24,156	x	$11.30	+	17,916	x	$452.83	=	$8,385,718
F 2009	24,090	x	$11.47	+	17,867	x	$454.96	=	$8,404,808

Table 8 shows total reimbursements for MSH. It includes $0.2 million per year in anticipated reimbursements from the Judiciary for the costs incurred in housing defendants in state institutions who have been found unfit to stand trial. The Judiciary is expected to assume this responsibility in FY 2008. The estimate is based on the executive budget funding recommendations.

Table 8
Forecast Reimbursements, Montana State Hospital

Fiscal Year	Non-Medicaid Care Days		Non-Medicaid Average Daily Reimbursement		Medicaid Care Days		Medicaid Average Daily Reimbursement		Judiciary		Total
F 2007	67,926	x	$44.94	+	67,926	x	$6.18	+	0.00	=	$3,472,118
F 2008	68,113	x	$45.22	+	68,113	x	$6.16	+	$200,000	=	$3,699,714
F 2009	67,926	x	$45.61	+	67,926	x	$6.18	+	$200,000	=	$3,718,160

Table 9 shows reimbursements for MMHNCC.

Table 9
Forecast Reimbursements, Montana Mental Health Nursing Care Center

Fiscal Year	Non-Medicaid Care Days		Non-Medicaid Average Daily Reimbursement		Medicaid Care Days		Medicaid Average Daily Reimbursement		Total
F 2007	29,273	x	$38.02	+	14,159	x	$162.91	=	$3,419,763
F 2008	29,353	x	$38.42	+	14,198	x	$163.43	=	$3,448,271
F 2009	29,273	x	$38.82	+	14,159	x	$165.12	=	$3,474,440

Step 4: General Fund Revenues

General fund revenue is total reimbursements minus debt service payments for MDC and MSH. Debt service payments were provided by DPHHS. Table 10 shows the calculation of general fund receipts from institutional reimbursements for service in FY 2007 through FY 2009.

Table 10
Institutional Reimbursements to the General Fund
($ millions)

Fiscal Year	Reimbursements: MDC		MSH		MMHNCC	Debt Service: MDC		MSH		General Fund
F 2007	$8.045	+	$3.472	+	$3.420	- $1.015	-	$1.909	=	$12.013
F 2008	$8.386	+	$3.700	+	$3.448	- $1.017	-	$1.908	=	$12.608
F 2009	$8.405	+	$3.718	+	$3.474	- $1.017	-	$1.910	=	$12.671

Additional Information

In prior years, payment for services provided to individuals covered by the Indian Health Service (IHS) was also included in institutional reimbursements. Since mid-2004 the state and the IHS have been renegotiating the memorandum of understanding. During renegotiation the IHS has not made payment for services provided by the state for individuals who were, in past years, covered by the IHS. This estimate does not include any anticipated reimbursement from the IHS; however, if there is a settlement there may be additional institutional reimbursement revenue.

Data Sources

DPHHS provided actual and projected per day reimbursement rates and care days. Information on inflation rates is from Global Insight's July 2006 forecast.