

Other General Fund Revenue

All Other Revenue
Highway Patrol Fines
Nursing Facilities Fee
Public Institution Reimbursements
Tobacco Settlement



Legislative Fiscal Division



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Legislative Fiscal Division

Revenue Estimate Profile

All Other Revenue

Revenue Description: There are a number of other taxes, fees, and fines that historically have generated less than \$2.5 million each in annual general fund revenue. In addition, the statutes governing these miscellaneous taxes, fees, and fines are frequently changed, making meaningful comparison between tax years impractical and accurate estimation of the revenue difficult.

“All Other Revenue” sources are estimated in aggregate except for the following: reimbursements for health insurance tax credit (enacted by the 2005 legislature in House Bill 667), court automation surcharge (enacted by the 2005 legislature in House Bill 536 and effective through FY 2009), investment license transfers, liquor license fee transfers, civil fines, single state registration system fees (through December 2006 only), lodging facility use tax, Montana University System debt service deposits, transfer of excess cigarette tax revenue in the veterans account administered by DPHHS, deposits by state agencies for SWCAP/ SFCAP, district court fees, BOI reimbursement of State Street Banking fees, transfers of excess coal tax revenue in the shared account, bentonite tax enacted in SB 276 by the 2005 legislature, and transfers of the excess over \$2.0 million from the veterans’ cigarette tax account. In the past, wildfire cost reimbursements had been included in the revenue source, but beginning in fiscal 2003 they are deposited to the federal special revenue fund.

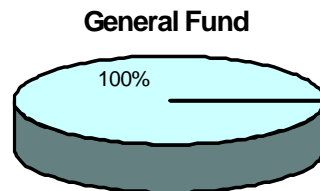
One-time revenue adjustments were added in fiscal 2007 for State Auditor security settlements: \$.

Statutory Reference: Various

Applicable Tax Rate(s): Various

Distribution: “All Other Revenue” is deposited in the general fund.

Distribution Chart:



Collection Frequency: The various revenue sources are generally collected on a monthly basis.

% of Total General Fund Revenue:

FY 2004 - 2.19%
FY 2005 - 2.27%
FY 2006 - 1.87%

Revenue Estimate Methodology:

There are numerous smaller sources of revenue deposited to the general fund that are treated as a single source termed “All Other”. Fourteen of these revenue sources are estimated individually with the remainder estimated as a group.

Data

Numerous data sources are consulted for each of the applicable 14 revenue sources that are estimated individually.

Analysis

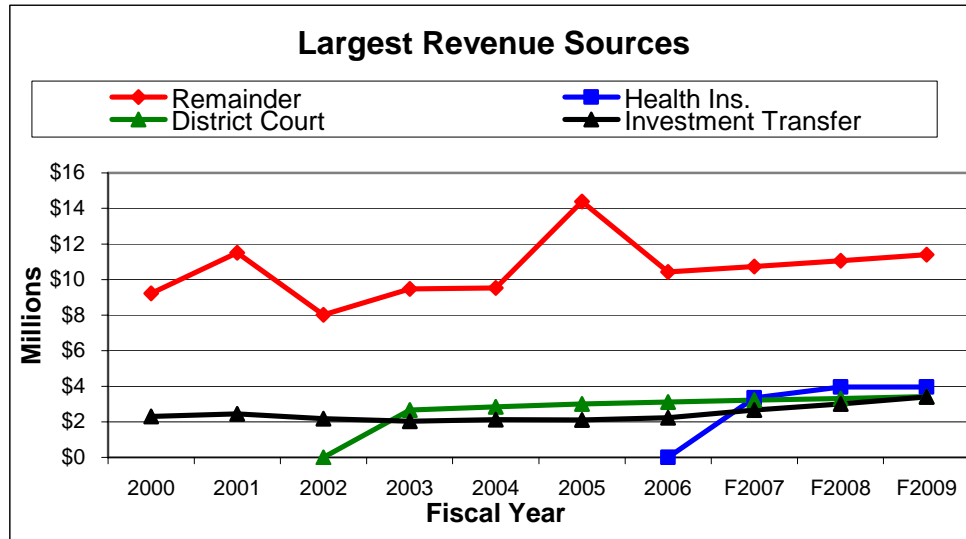
1. Largest Revenue Sources (see the figure below)

Legislative Fiscal Division

Revenue Estimate Profile

All Other Revenue

- a. The remainder of “All Other” revenue, after the 14 revenue sources have been estimated individually, is estimated by applying a 3.0 percent growth rate to the previous fiscal year.
- b. Health Insurance Tax Credit Reimbursement - The estimated amounts are amounts appropriated in HB 2 that the State Auditor’s Office needs to reimburse the general fund for revenue lost through tax credit for providing health insurance for FY 2007-2009.
- c. District Court Fees – The previous year’s amount is increased by the growth rate between the prior two years.
- d. Investment License Fee Transfer – The transfer amount is the net between non-general fund investment fee revenue collected by the State Auditor and its expenses. These amounts are determined in the Investment License Fee revenue source.



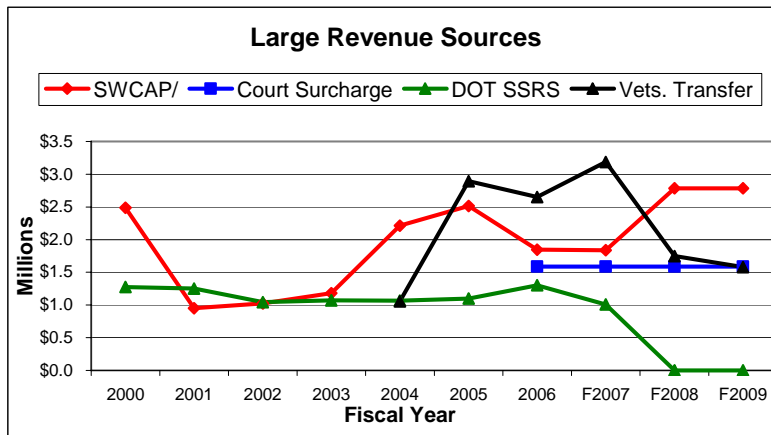
2. Large Revenue Sources (see the chart below)

- a. Statewide Cost Allocation Plan – Amounts budgeted for agencies in HB 2 for the SWCAP are used for the amounts from this source.
- b. Court Surcharge – FY 2006 collections are carried in each of the succeeding years.
- c. Single State Registration System – Estimates for this source are made in the Gross Vehicle Weight revenue source section. Since passage of the new federal highway legislation eliminates the SSRS (and associated state fee), revenue from this source terminates January 2007.
- d. Veteran’s Cigarette Account Transfer – Money in the account at the end of a fiscal year in excess of \$2.0 million is transferred to the general fund. To estimate the excess amounts, distributions of cigarette tax revenue to the account (as determined in the Cigarette Tax revenue source) is reduced by budgeted present law amounts from the account for each fiscal year obtained from the MBARS. The \$2.0 million limit is then subtracted from the net revenue.

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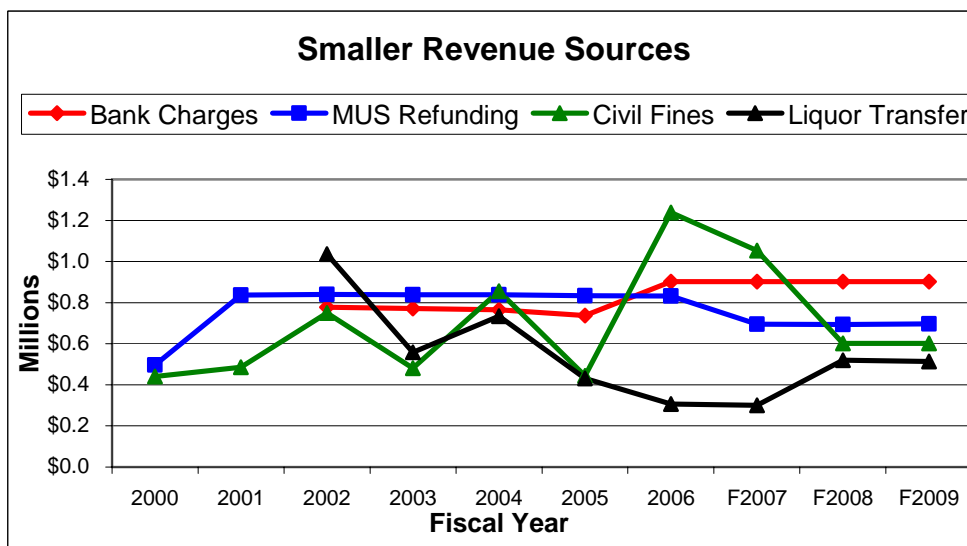
Revenue Estimate Profile

All Other Revenue



3. Smaller Revenue Sources

- a. Banking Charges – The rate the Board of Investments charges funds for its services are determined by a contract with a financial institution. Board personnel expect the charges to be the same as FY 2006. Since the current contract expires the end of FY 2007 and the new rate will not be known until then, the FY 2006 amount is used for the 2009 biennium.
- b. Montana University System Refunding – Payments are determined by a loan repayment schedule calculated by the Department of Administration.
- c. Civil Fines – The average of fine revenue from FY 2000 to FY 2006 (with the maximum and minimum amounts removed) is used for FY 2007 – 2009. The FY 2007 amount is supplemented by \$450,000 of security settlement revenue anticipated by the State Auditor’s Office.
- d. Liquor License Fee Transfer – Money collected from liquor license fees, net of operating costs of the Department of Revenue and Department of Justice, is transferred to the general fund. License fee revenue and operating costs (obtained from MBARS budgets) are estimated and shown in the Liquor Profits revenue source.



4. Smallest Revenue Sources (see the figure below)

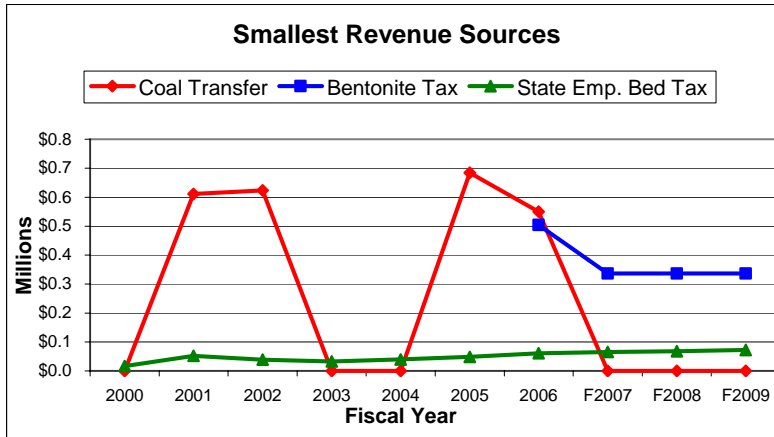
- a. Coal Shared Account Transfer – Any excess fund balance in the account is transferred to the general fund. To estimate the excess amounts, distributions of coal severance tax revenue to the account (as determined in the Coal Severance Tax revenue source) is reduced by budgeted present law amounts for each fiscal year from the account obtained from the MBARS.

Legislative Fiscal Division

Revenue Estimate Profile

All Other Revenue

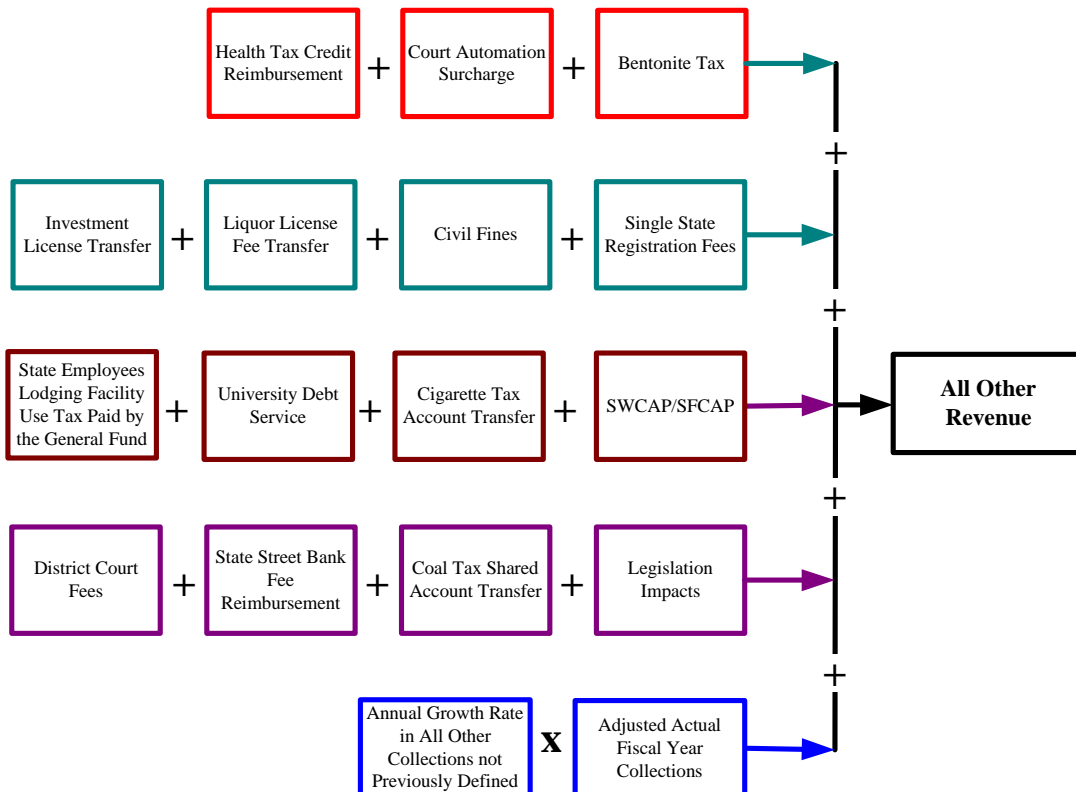
- b. Bentonite Tax – FY 2006 collections are carried forward for FY 2007 – FY 2009.
- c. State Employees Lodging Facility Use Tax – Revenue from this tax paid by state employees are returned to the funds from which they were paid, including the general fund. The general fund estimate is calculated by multiplying the estimate for non-general fund (estimated in the Lodging Taxes revenue source) by the ratio of the previous lodging facility use tax general fund portion to the total non-general fund portion.



Adjustments and Distribution

Once total revenue for each fiscal year is determined, the applicable distribution percentage, 100 percent to the general fund, is applied.

Forecast Methodology



Legislative Fiscal Division

Revenue Estimate Profile

All Other Revenue

Revenue Estimate Assumptions

This section contains the assumptions used to generate the revenue estimates contained in House Joint Resolution 2. It does not reflect changes, if any, enacted by the 2005 legislature that may affect future estimates of this revenue source.

	Year	Total Tax	GF Tax	Base	Annual	Adjustments	Vet. Account	One-Time
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Growth</u>	<u>Millions</u>	<u>Transfer</u>	<u>Transfer</u>
							<u>Millions</u>	<u>Millions</u>
Actual	2000	20.488330	20.488330	9.216695	-24.5934%			
Actual	2001	51.821783	51.821783	11.509661	24.8784%			
Actual	2002	43.215892	43.215892	8.025926	-30.2679%	1.162288		
Actual	2003	42.440179	42.440179	9.474137	18.0442%	21.282497		
Actual	2004	30.241562	30.241562	9.529089	0.5800%	8.189612	1.054958	
Actual	2005	34.724084	34.724084	14.380616	50.9128%	0.000000	2.893230	4.767070
Actual	2006	31.867090	31.867090	10.424440	-27.5105%	0.000000	2.652808	0.781063
Forecast	2007	31.542000	31.542000	10.737173	3.0000%	0.000000	3.188227	0.000000
Forecast	2008	30.877000	30.877000	11.059288	3.0000%	0.000000	1.748587	0.000000
Forecast	2009	31.550000	31.550000	11.391067	3.0000%	0.000000	1.579500	0.000000

	Year	Investment	Land Grant	Civil Fines	GVW Fees	Accom. Tax	MSU&EMC	SABHRS
	<u>Fiscal</u>	<u>Transfer</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Debt</u>	<u>Debt</u>
		<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	2.296258	0.086129	0.439498	1.275935	0.016878	0.495693	2.506520
Actual	2001	2.445000	0.091699	0.484739	1.252221	0.052215	0.837170	2.490067
Actual	2002	2.179165	0.000000	0.749382	1.044512	0.038912	0.839583	2.468857
Actual	2003	2.036200	0.000000	0.480945	1.071278	0.032547	0.838186	2.050913
Actual	2004	2.113000	0.000000	0.855870	1.067278	0.040021	0.837743	0.000000
Actual	2005	2.110000	0.000000	0.442752	1.100125	0.048903	0.833016	0.000000
Actual	2006	2.234000	0.000000	1.238230	1.304052	0.061096	0.831704	0.000000
Forecast	2007	2.658000	0.000000	1.052738	1.008987	0.065000	0.695734	0.000000
Forecast	2008	3.006000	0.000000	0.602738	0.000000	0.068000	0.694164	0.000000
Forecast	2009	3.401000	0.000000	0.602738	0.000000	0.072000	0.697341	0.000000

Legislative Fiscal Division

Revenue Estimate Profile

All Other Revenue

	<u>t</u>	<u>FEMA</u>	<u>Coal</u>	<u>SFCAP</u>	<u>Liquor License</u>	<u>District</u>	<u>Bank</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Transfer</u>	<u>SWCAP</u>	<u>Transfer</u>	<u>Court</u>	<u>Charges</u>
			<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	0.000000	0.000000	2.486250	0.000000	0.000000	0.000000
Actual	2001	31.097802	0.611432	0.949777	0.000000	0.000000	0.000000
Actual	2002	23.246341	0.623227	1.023875	1.036184	0.000000	0.777640
Actual	2003	0.000000	0.000000	1.179279	0.558198	2.664891	0.771108
Actual	2004	0.000000	0.000000	2.214579	0.734102	2.839310	0.766000
Actual	2005	5.540426	0.684019	2.514237	0.431146	3.009058	0.736556
Actual	2006	3.535414	0.550453	1.844039	0.305976	3.107784	0.902735
Forecast	2007	0.000000	0.244723	1.836574	0.667707	3.209749	0.902735
Forecast	2008	0.000000	0.000000	2.785109	0.819382	3.315059	0.902735
Forecast	2009	0.000000	0.000000	2.785109	0.818218	3.423824	0.902735

	<u>t</u>	<u>Court</u>	<u>Health Ins.</u>	
	<u>Fiscal</u>	<u>Surcharge</u>	<u>Credit</u>	<u>Bentonite</u>
		<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000			
Actual	2001			
Actual	2002			
Actual	2003			
Actual	2004			
Actual	2005			
Actual	2006	0.000000	1.589184	0.504112
Forecast	2007	3.349000	1.589184	0.336075
Forecast	2008	3.950276	1.589184	0.336075
Forecast	2009	3.950286	1.589184	0.336075

Total Rev. = Base * (1+ Annual Growth) + Vet. Account Transfer + Investment Transfer + Civil Fines +
 GVW Fees + Accom. Tax + MSU/EMC Debt + Coal Transfer + SFCAP/SWCAP +
 Liquor License Transfer + Disctrict Court + Bank Charges + Court Automation +
 Health Ins. Credit + Bentonite

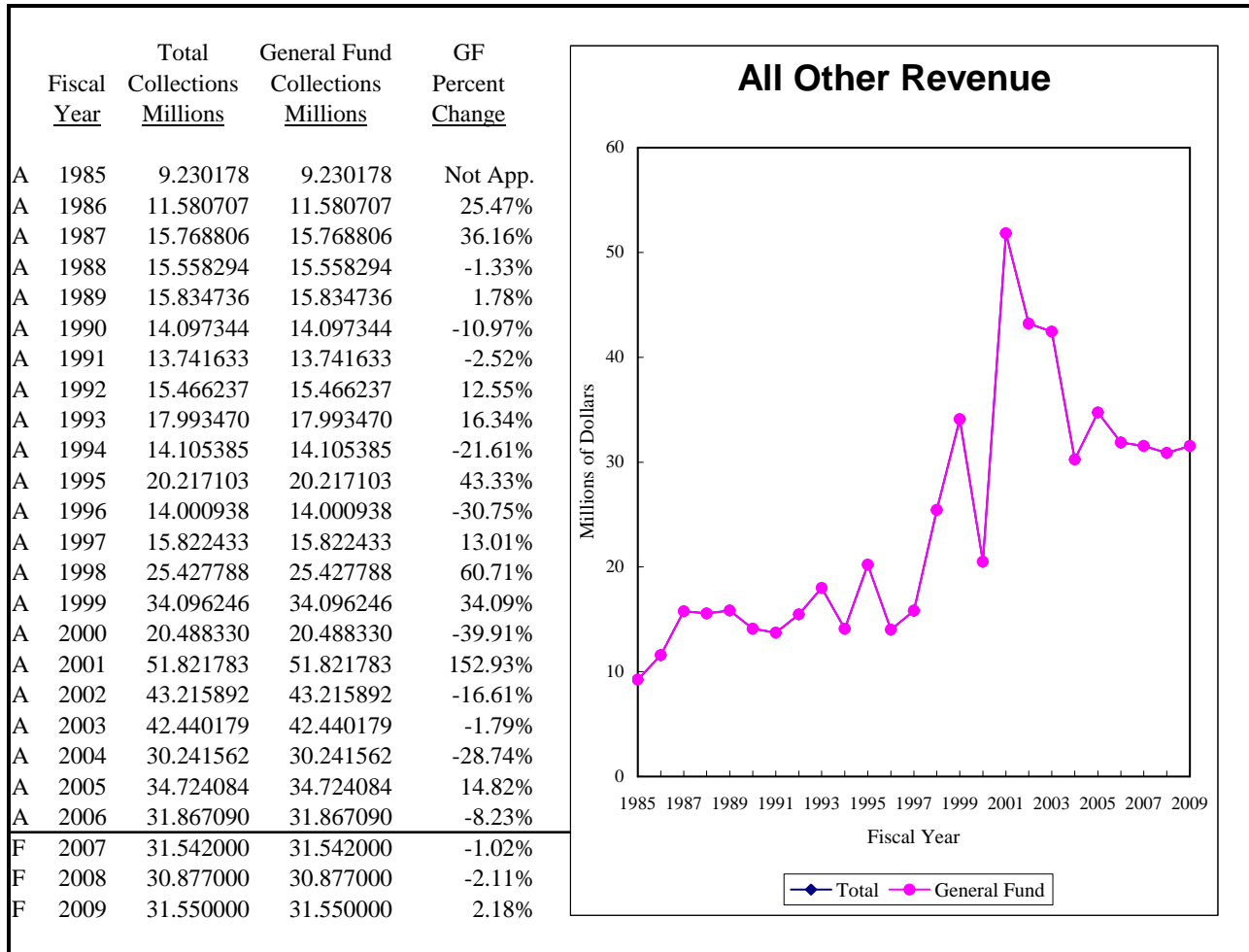
Total Rev. = GF Rev.

Legislative Fiscal Division

Revenue Estimate Profile

All Other Revenue

Revenue Projection:



Data Source(s): SABHRS, Office of Budget and Program Planning, Department of Justice, Department of Public Health and Human Services, Department of Administration, Department of Revenue, and the State Auditor

Contacts: Multiple state agencies

Legislative Fiscal Division

Revenue Estimate Profile

Highway Patrol Fines

Revenue Description: The Montana Highway Patrol issues citations for speeding, driving under the influence of alcohol or drugs, and other misdemeanors. The fines and forfeitures associated with these citations are collected by various state and local courts.

Statutory Reference:

Tax Rate (MCA) – general fines (61-3-601, 61-5-307, 61-7-118, 61-8-711, 61-9-511), multiple others

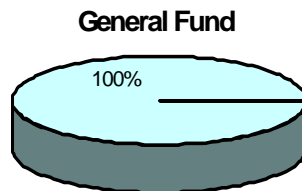
Tax Distribution (MCA) – 3-10-601 (fines collected in justice court are included in “All Other General Fund”), 61-10-148 (violations of vehicle size, weight & load), 61-12-701 (fines by Highway Patrol)

Date Due – upon conviction

Applicable Tax Rate(s): Fines for citations are variable.

Distribution: All of Highway Patrol fines and forfeitures on all offenses that result from citations issued by the Highway Patrol, except those paid to a justices’ court, received by the state are deposited in the general fund.

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 0.30%

FY 2005 – 0.28%

FY 2006 – 0.25%

Revenue Estimate Methodology:

The estimate for the highway patrol fine revenue is derived by estimating a growth rate for each of the fiscal years for the 3-year period in question.

Data

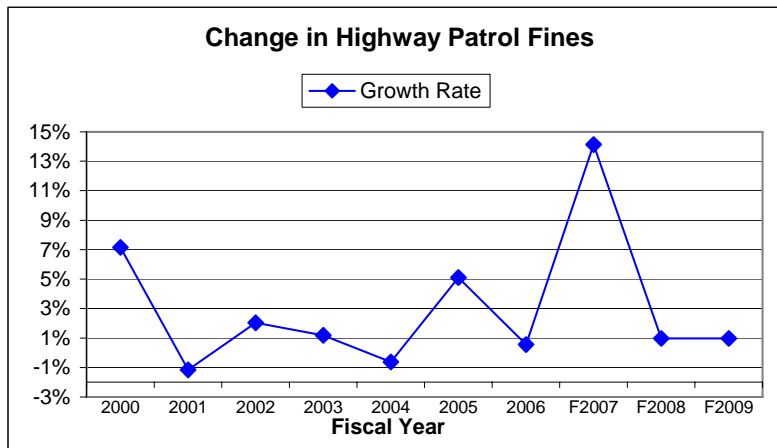
Data from the statewide accounting system (SABHRS) provide a history of highway patrol fine revenue.

Analysis

The estimate for highway patrol fines is derived by multiplying the revenue amount from the last known fiscal year by a growth factor. Due to effective dates and errors in the fiscal notes of legislation from the 2005 legislative session, FY 2006 collections do not accurately reflect a full year of collections. Therefore, to estimate FY 2007, effects of the legislation are first removed from FY 2006 collections and then a growth rate of the average annual growth between FY 2000 and 2005 is applied. Legislation impacts estimated for FY 2007 are then added back. The methodology is also used for the 2009 biennium estimates.

Legislative Fiscal Division

Revenue Estimate Profile Highway Patrol Fines



Adjustments and Distribution

Once total tax revenue for each fiscal year is determined, the applicable distribution percentage, 100 percent to the general fund, is applied.

Forecast Methodology



Revenue Estimate Assumptions

	t	Total Tax	GF Tax	Fine
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Growth Rate</u>
Actual	2000	4.027557	4.027557	0.071580
Actual	2001	3.980688	3.980688	-0.011637
Actual	2002	4.061733	4.061733	0.020360
Actual	2003	4.109703	4.109703	0.011810
Actual	2004	4.084340	4.084340	-0.006171
Actual	2005	4.292730	4.292730	0.051022
Actual	2006	4.316381	4.316381	0.005510
Forecast	2007	4.926000	4.926000	0.141309
Forecast	2008	4.974000	4.974000	0.009758
Forecast	2009	5.023000	5.023000	0.009788

Total Tax = Previous year * (1 + Growth Rate)

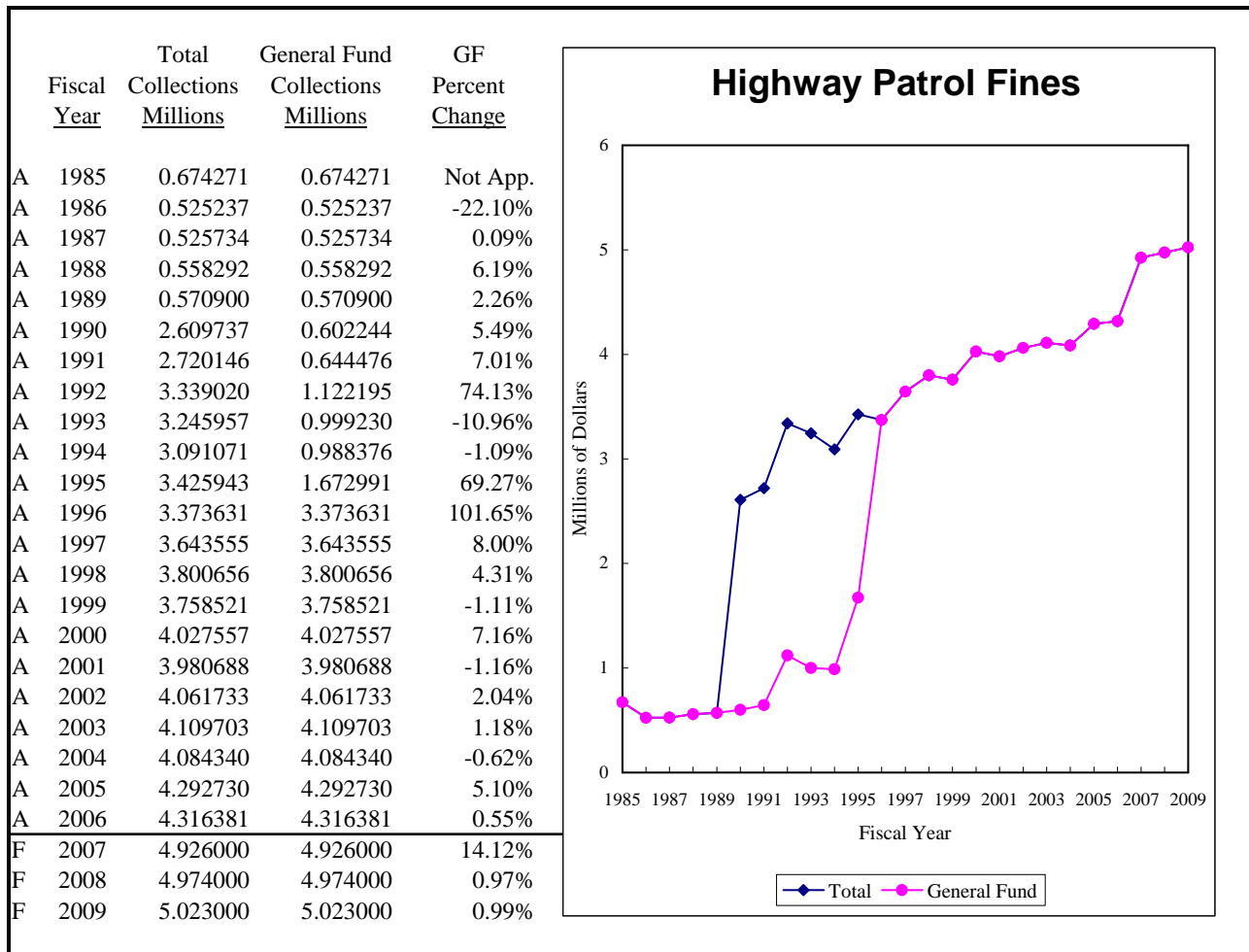
GF Tax = Total Tax

Legislative Fiscal Division

Revenue Estimate Profile

Highway Patrol Fines

Revenue Projection:



Data Source(s): Department of Justice, Highway Patrol, SABHRS

Contacts: Department of Justice, Highway Patrol

Legislative Fiscal Division

Revenue Estimate Profile

Nursing Facilities Fee

Revenue Description: This source consists of two similar utilization fees on nursing homes: 1) nursing facility utilization fee; and 2) intermediate care facility utilization fee.

With the enactment of House Bill 749 by the 2005 legislature, qualified nursing facilities are required to pay a nursing facility utilization fee of \$8.30 for each bed day in the facility. Nursing facilities are health care facilities licensed by the Department of Public Health and Human Services and include those operated for profit or non-profit, freestanding or part of another health facility, and publicly or privately owned. Specifically included by statute is the Montana Mental Health Nursing Care Center. According to federal definitions, nursing facilities do not include adult foster homes, retirement homes, and other alternative living arrangements. Bed days are defined as a 24-hour period in which a resident of a nursing facility is present in the facility or in which a bed is held for a resident while on temporary leave.

An intermediate care facility utilization fee is imposed on resident bed days of intermediate care facilities for the mentally retarded. The only qualifying facility is the Montana Developmental Center. With the enactment of Senate Bill 82 by the 2005 legislature, the fee is six percent of a facility's quarterly revenue divided by the quarterly bed days.

Statutory Reference:

Tax Rate (MCA) – Nursing facility utilization fee (15-60-102), intermediate care facility utilization fee (15-67-102(2))

Tax Distribution (MCA) – Nursing facility utilization fee (15-60-102 & 15-60-210), intermediate care facility utilization fee (15-67-102(3))

Date Due – Nursing facility utilization fee due the last day of the month following the close of the calendar quarter (15-60-201), intermediate care facility utilization fee due the month following the close of the calendar quarter (15-67-201(1))

Applicable Tax Rate(s): 1) Nursing facility utilization fee – \$8.30 per bed day; 2) Intermediate care facility utilization fee - 6 percent of a facility's quarterly revenue divided by the quarterly bed days

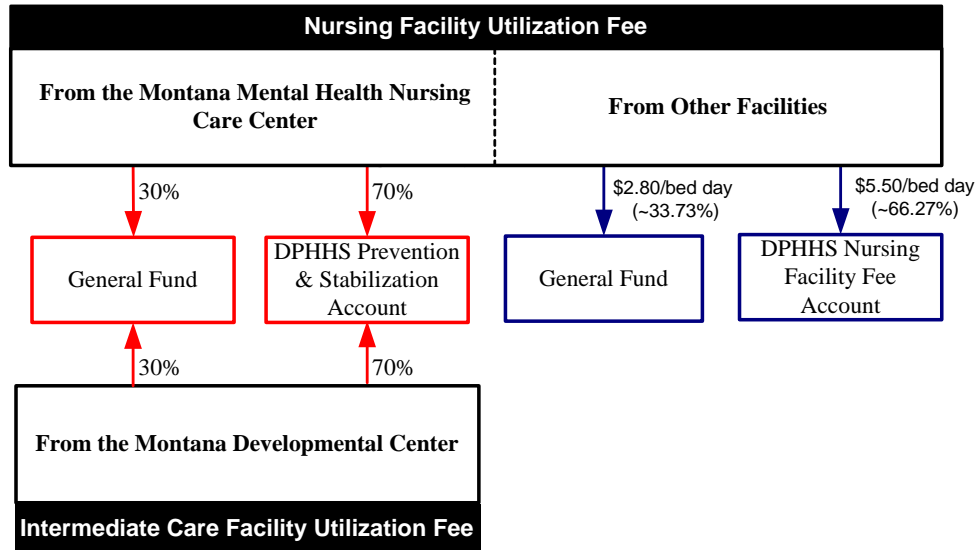
Distribution: Nursing facility utilization fee: 1) for fees paid by the Montana Mental Health Nursing Care Center – 30 percent to the general fund and 70 percent to the prevention and stabilization account (for use by the Department of Public Health and Human Services to provide health and human services); 2) for all other facilities - \$2.80/bed day to the general fund, and \$5.50 to the nursing facility fee account (for use by the Department of Public Health and Human Services to increase the average price paid for Medicaid nursing home services). Intermediate care facility utilization fee: for fees paid by the Montana Developmental Center - 30 percent to the general fund and 70 percent to the prevention and stabilization account.

Legislative Fiscal Division

Revenue Estimate Profile

Nursing Facilities Fee

Distribution Chart:



Collection Frequency: Quarterly

% of Total General Fund Revenue:

FY 2004 – 0.43%

FY 2005 – 0.39%

FY 2006 – 0.33%

Revenue Estimate Methodology:

Data

To create the nursing facility fees projection, data is obtained from the Department of Revenue (DOR), the Department of Public Health and Human Services (DPHHS) and the state accounting system (SABHRS). DOR provides the number of taxable bed days occupied by clientele of private and state run nursing homes. DPHHS provides counts on the bed days at the Montana Developmental Center (MDC) and total revenues collected, which are used in the calculation of the intermediate care facility fee. SABHRS data provides aggregate historic collections of the nursing facility fees. No adjustments to the raw data are required in the data step for the nursing facility fee analysis.

Analysis

Nursing facility fees consist of two distinct fees, the nursing facility fee and the intermediate care facility fee. Consequently, two techniques are required to estimate the collection of these fees. The nursing facility fees are estimated using a log model to project future bed days at nursing care facilities. MDC is the only intermediate care facility in Montana and the only facility subject to the intermediate care facility fee. The intermediate facility fee is projected by applying a growth rate to the last year of actual revenue collections at MDC, fiscal 2006.

Total nursing fee revenue has increased since 2003, as a result of fee increases and new fees, but as seen in the figure below the number of taxable bed days at nursing care facilities has declined at the same time. Overall, taxable bed days have been in decline since the fee was imposed in the mid 1990's. Consequently, taxable nursing facility bed days are projected with a log model which smoothes the excessive variability in the data for the purpose of measurement. To obtain the projection for nursing facility fees, the following equation is employed:

$$\text{Projected Nursing Facility Fees} = \text{TBD}_{\text{NCF}} * \text{NFFR}$$

Where:

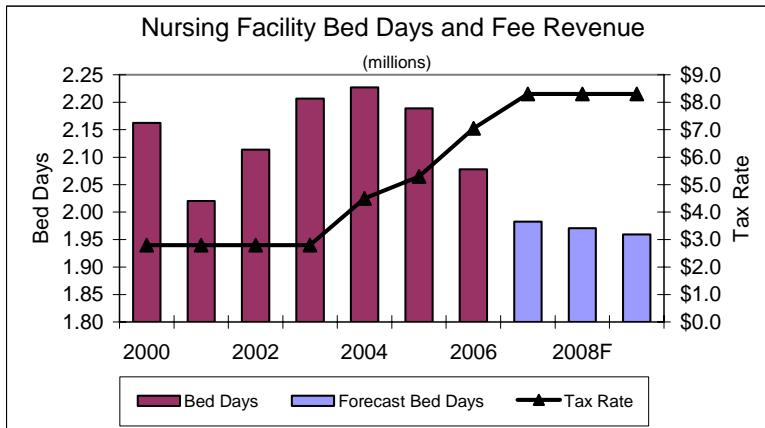
TBD_{NCF} = Taxable Bed Days, Nursing Care Facilities

NFFR = Nursing Facility Fee Rate

Legislative Fiscal Division

Revenue Estimate Profile

Nursing Facilities Fee



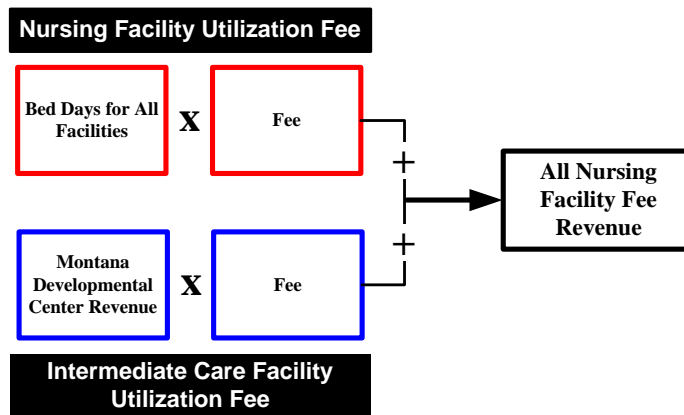
The statistics of fit show that a logarithmic curve accurately measures the rate of growth in the number of taxable nursing facility bed days in Montana. The model has an R² rating of 0.986. This means that the linear trend explains 98.6 percent of the variability of the number of taxable nursing facility bed days in Montana, when all other impacts are held constant.* The model projects compound growth of approximately -1.0 percent per fiscal year resulting in bed day projections of 1.98 million, 1.97 million, and 1.96 million in fiscal 2007 through fiscal 2009, respectively. By applying the current fee of \$8.30 to the projected taxable bed days, the resulting projections are \$16.5 million, \$16.4 million, and \$16.3 million in fiscal 2007 through fiscal 2009, respectively.

The intermediate care facility fee is assessed against the per-bed day receipts of the facility. Because the intermediate care facility fee is a relatively new fee, there is only a limited amount of data to use in the projection of future fee collections. As a result, the fee is projected by applying the rate of growth in the revenues from the last year of actual collection, the base year, to the subsequent three years. The rate of revenue growth at MDC between fiscal 2005 and 2006 was 0.60 percent. In applying that rate of growth to the fiscal 2006 base, projections equal \$902,638 in fiscal 2007, \$908,081 in fiscal 2008, and \$913,556 in fiscal 2009.

Finally, the fiscal year projections are summed to provide the total nursing facility fees estimates. The resulting estimates are \$17.4 million in fiscal 2007, \$17.3 million in fiscal 2008, and \$17.2 million in fiscal 2009.

*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

Forecast Methodology:



Legislative Fiscal Division

Revenue Estimate Profile

Nursing Facilities Fee

Revenue Estimate Assumptions:

	t	Total Tax	GF Tax	Nursing	Bed	Intermediate	Intermediate	MMHNCC
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Facilities</u>	<u>Bed</u>	<u>Care</u>	<u>Care</u>	<u>Tax</u>
				<u>Fee</u>	<u>Days</u>	<u>Rate</u>	<u>Revenue</u>	<u>Millions</u>
Actual	2000	6.054947	6.054947	2.800000	2.113805			
Actual	2001	5.655978	5.655978	2.800000	2.083501			
Actual	2002	5.918173	5.918173	2.800000	2.072696			
Actual	2003	6.178135	5.859870	2.800000	2.047881	5.0000%	9.093277	
Actual	2004	10.021866	5.915841	4.500000	2.043377	5.0000%	17.262568	
Actual	2005	11.602112	5.911586	5.300000	2.015377	5.0000%	14.864154	
Actual	2006	14.649976	5.711693	7.050000	1.979893	6.0000%	14.953790	
Forecast	2007	17.361000	5.814000	8.300000	1.982894	6.0000%	15.044000	0.232000
Forecast	2008	17.266000	5.781000	8.300000	1.970756	6.0000%	15.135000	0.231000
Forecast	2009	17.179000	5.752000	8.300000	1.959590	6.0000%	15.226000	0.229000

Total Tax = Nursing Facilities * Bed + Intermediate Care Rate * Intermediate Care Revenue

GF Tax = MMHNCC * 30% + (Nursing Fee * Bed Days - MMHNCC) * \$2.80/\$8.30 +

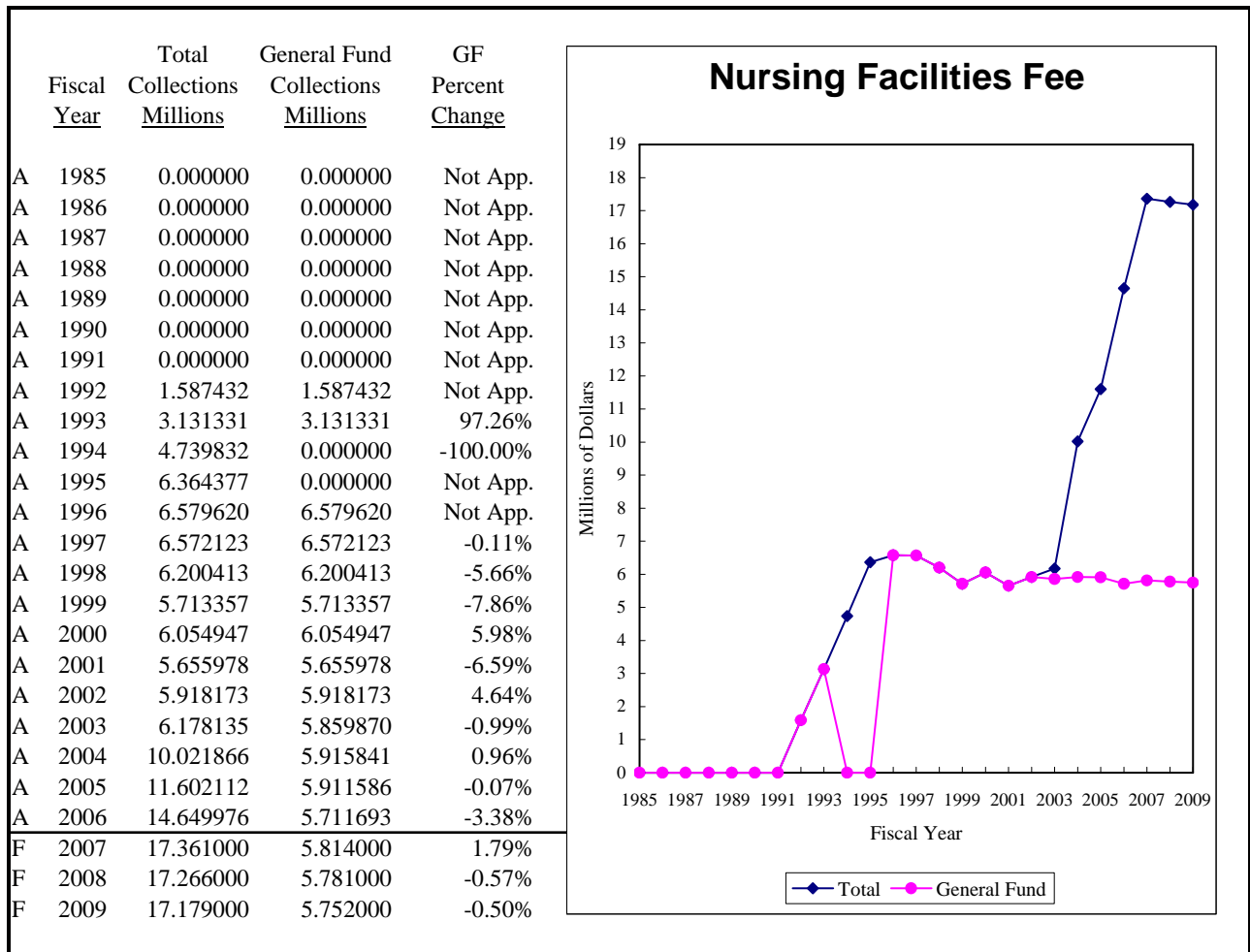
Care Revenue * Care Rate * 30%

Legislative Fiscal Division

Revenue Estimate Profile

Nursing Facilities Fee

Revenue Projection:



Data Source(s): Department of Public Health and Human Services, Nursing Facilities

Contacts: Department of Public Health and Human Services

Legislative Fiscal Division

Revenue Estimate Profile

Public Institution Reimbursements

Revenue Description: The Department of Public Health and Human Services receives reimbursement for the cost of sheltering and treating residents at the Montana Developmental Center (MDC), the Montana Mental Health Nursing Care Center, Montana State Hospital (MSH), Eastern Montana Veterans' Home, Montana Chemical Dependency Treatment Center, and the Montana Veterans' Home. There are four sources of reimbursement income: 1) state and federally matched Medicaid monies; 2) insurance proceeds from companies with whom the resident is insured; 3) payments by residents or persons legally responsible for them; and 4) federal Medicare funds. Most of the reimbursements come from federal Medicaid payments.

Three variables determine the level of Medicaid nursing home payments: 1) the number of patient days eligible for Medicaid reimbursement; 2) the reimbursement rate per patient day; and 3) the private resources of Medicaid patients.

Statutory Reference:

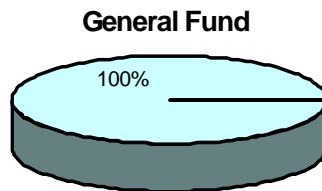
Tax Rate (MCA) – 53-1-402 (requirement to pay)
Tax Distribution (MCA) – 53-1-413
Date Due – monthly (53-1-405(3))

Applicable Tax Rate(s): N/A

Distribution: Revenue collected from the above sources are deposited in the general fund with the following exceptions:

1. Reimbursements from MDC and MSH are first used to pay debt service on bonds issued to fund construction at these facilities. The remainder is deposited into the general fund.
2. Reimbursements received for the Veterans' Home and Montana Chemical Dependency Treatment Center are deposited into a state special revenue account and appropriated to the institutions.

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 1.31%
FY 2005 – 0.82%
FY 2005 – 0.75%

Revenue Estimate Methodology:

Data

Data is collected from the Department of Public Health and Human Services (DPHHS) and the state accounting system (SABHRS) to develop the estimate for the public institution reimbursements. In addition to residency data, DPHHS provides the data that is used to develop relationships of payment patterns of individuals and insurance companies to the federal government reimbursements (Medicaid and Medicare). DPHHS also provides estimates on future Federal Medical Assistance Percentage (FMAP) rates. SABHRS data provides historical data that is used to assess the accuracy of the estimates.

Analysis

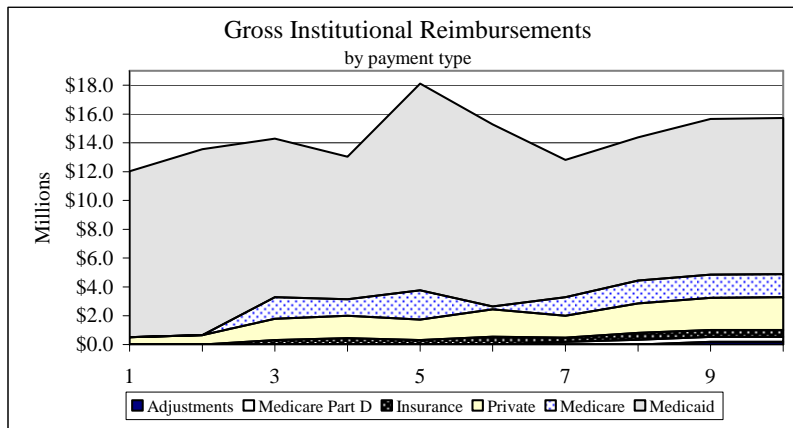
The largest component of Montana's institutional reimbursements is Medicaid, as seen in the figure below. Medicaid and

Legislative Fiscal Division

Revenue Estimate Profile

Public Institution Reimbursements

Medicare payments are responsible for most of the variability in reimbursement collections. Consequently, the variability can in large part be attributed to the changes in the FMAP rates for the state. The FMAP rates are set annually based on the state's relative per capita income. State's like Montana, with a relatively low per capita income and a higher FMAP rate. As a result, Montana receives more federal assistance than states with a higher per capita income. If the state per capita income rises in relation to other states, the FMAP rate and federal reimbursements will decline. Most of the Medicare payments result from billings at Montana State Hospital (MSH), while most Medicaid payments are generated through Montana Mental Health Care Center (MMHCC).



Estimates for institutional reimbursements are derived using average daily population (ADP) estimates and reimbursement rates provided by DPHHS for three state hospitals: the Montana Dependency Center (MDC), MMHCC, and MSH. Both the ADP and the facility rates are estimated with expected growth percentages. The ADP is adjusted by Medicare and Medicaid eligibility rates, as determined by DPHHS. The FMAP rate, provided to DPHHS in terms of federal fiscal year, is adjusted for the state fiscal year. The equation for calculating the reimbursements for each facility follows:

$$\text{Reimbursements} = (\text{ADPI} * \text{RateI}) + (\text{ADPP} * \text{RateP}) + (\text{ADPMR} * \text{EligMR} * \text{RateMR} * \text{FMAP}) + (\text{ADPMD} * \text{EligMD} * \text{RateMD} * \text{FMAPMD})$$

Where:

ADP = Average Daily Population

I = Insurance

P = Private

MR = Medicare

MD = Medicaid

ELIG = Eligibility Rate

FMAP = Federal Medical Percentage

According to DPHHS, bed days are expected to decline at MDC and MSH in the next biennium, while the bed days at MMHCC are expected to increase slightly. The FMAP rates are expected to be 69.35 percent, 68.63 percent, and 68.41 percent in fiscal 2007 through 2009 respectively. Private rates are expected to grow at a rate of near 1.5 percent over the biennium at all three facilities. Insurance payments are expected to remain relatively constant over the biennium. Next, the estimates of the three facilities are summed by payment type. Private payments are estimated to be \$2.0 million, \$2.2 million, and \$2.3 million for fiscal 2007 through 2009 respectively. The estimates for insurance payments are \$481,478, \$482,797, and \$481,479 for fiscal 2007 through fiscal 2009 respectively. Medicaid payments are expected to be \$9.93 million, \$10.81 million, and \$10.86 million through the three years of this analysis. Medicare payments are estimated at \$1.6 million over the three-year period. New since

Legislative Fiscal Division

Revenue Estimate Profile

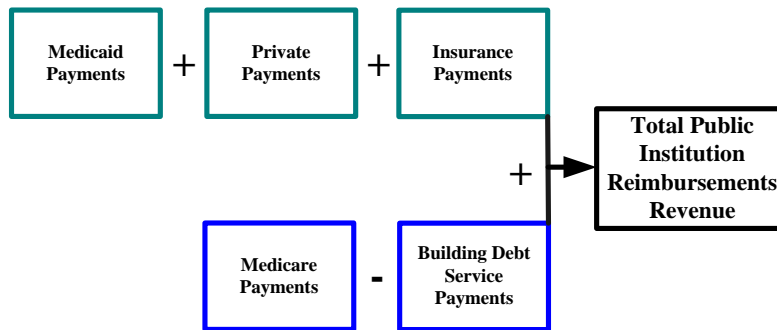
Public Institution Reimbursements

FY 2006 are Medicare Part D reimbursements to MMHCC. Medicare Part D is reimbursed at a rate of \$11.32/eligible bed day. This rate is not expected to change over the next biennium and yields reimbursements of approximately \$330,000 annually. Finally, adjustments are made in fiscal years 2007 and 2008 for the evaluation of patients who are considered “unfit to proceed”. The \$200,000 adjustment is a component of the Judiciary present law budget. The final step in creating the reimbursement estimate is to combine the estimates by payment type estimates. When combined, the estimate for gross reimbursements is \$11.5 million in fiscal 2007, \$12.7 million in fiscal 2008, and \$12.8 million in fiscal 2009.

Adjustment and Distribution

Two adjustments are required to complete the estimates for institutional reimbursements. Gross reimbursements must be reduced by two debt service payments for each fiscal year. The debt service is the result of bonds issued for the purpose of facility upgrades. After subtracting the debt service reimbursements collections are \$11.5 million in fiscal 2007, \$12.1 million in fiscal 2008, and \$12.2 million in fiscal 2009.

Forecast Methodology



Legislative Fiscal Division

Revenue Estimate Profile

Public Institution Reimbursements

Revenue Estimate Assumptions

	t	Total Rev.	GF Rev.	Private	Insurance	Medicaid	Medicare
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	11.345440	11.345440	0.512403	0.000257	12.490967	0.003044
Actual	2001	13.553585	13.553585	0.649965	0.000498	12.887899	0.015223
Actual	2002	14.282894	14.282894	1.483431	0.317047	10.994744	1.487671
Actual	2003	13.042526	13.042526	1.564208	0.451974	9.900342	1.126001
Actual	2004	18.110443	18.110443	1.424453	0.311203	14.336601	2.038187
Actual	2005	12.508688	12.508688	1.887627	0.556631	12.631385	0.210973
Actual	2006	12.727569	12.727569	1.534775	0.283624	9.531139	1.273948
Forecast	2007	11.451000	11.451000	2.040264	0.481478	9.928238	1.593920
Forecast	2008	12.742000	12.742000	2.245158	0.482797	10.808917	1.598224
Forecast	2009	12.810000	12.810000	2.272478	0.481479	10.857125	1.593858

	t	MDC Debt	MSH Debt	Adjustments	Medicare Part D
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	0.965496	0.000000		
Actual	2001	1.079220	1.909252	0.000000	
Actual	2002	1.075405	1.911032	0.000000	
Actual	2003	1.045873	1.776461	-1.572893	
Actual	2004	0.868888	1.752261	-3.180119	
Actual	2005	1.005833	1.785072	0.012977	
Actual	2006	0.950665	1.775375	0.000000	0.104083
Forecast	2007	1.014610	1.909308	0.000000	0.331370
Forecast	2008	1.017060	1.908388	0.200000	0.332278
Forecast	2009	1.016810	1.909688	0.200000	0.331370

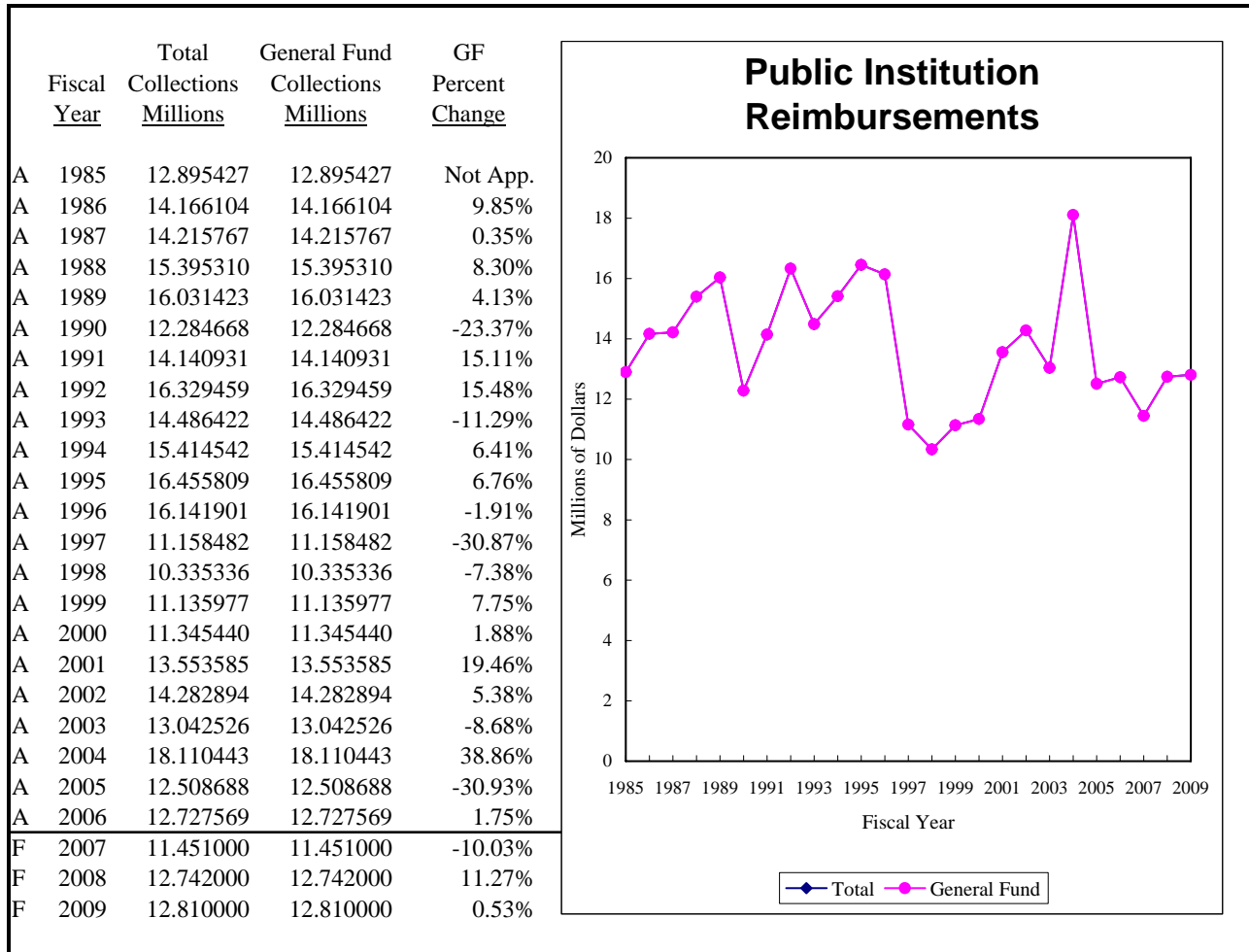
Total Rev. = Private + Insurance + Medicaid + Medicare - MDC Debt - MSH Debt + Adjustments + Medicare Part D
 GF Rev. = Total Rev.

Legislative Fiscal Division

Revenue Estimate Profile

Public Institution Reimbursements

Revenue Projection:



Data Source(s): SABHRS, Department of Public Health and Human Services

Contacts: Department of Public Health and Human Services

Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Settlement

Revenue Description: Montana receives revenue as a settling party to a Master Settlement Agreement (MSA) with four original tobacco companies and 46 subsequent companies to end a four-year legal battle with 46 states, Puerto Rico, American Samoa, the U.S. Virgin Islands, the North Mariana Island, Guam and the District of Columbia (52 total settling entities).

Montana is eligible for four types of payments: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (Two were received in fiscal 2000. One each year is expected in fiscal 2001, 2002, and 2003); 3) on-going, perpetual annual payments; and 4) strategic contribution payments (from fiscal 2008 through 2017). The MSA places no restrictions on how the settling parties spend the money.

The total amount of tobacco settlement funds available to Montana is affected by a number of adjustments. These may include inflation, sales volume changes, non-participating manufacturers (NPM) adjustment for the loss of market shares, operating income of the original four tobacco companies, number and operating income of subsequent participating manufactures, number of states reaching state specific finality, settlements reached by the four states not party to the agreement (Florida, Texas, Minnesota, and Mississippi), litigation offsets, disputed payments, and federal tobacco legislation offsets among others.

The adjustment for NPM is applied for the first time beginning fiscal 2006. Amounts paid by manufacturers who participate in the MSA may decrease if they have lost market shares and it is proven that a significant portion of the loss (to companies not participating in the MSA) is due to the disadvantages caused by the MSA. An economics firm must determine if this is the case. Although this has not yet been determined, it is expected that participating manufactures will withhold a portion of their payments in disputed escrow accounts until the matter is resolved, thus reducing payments to the settling entities.

Statutory Reference:

Tax Rate – NA

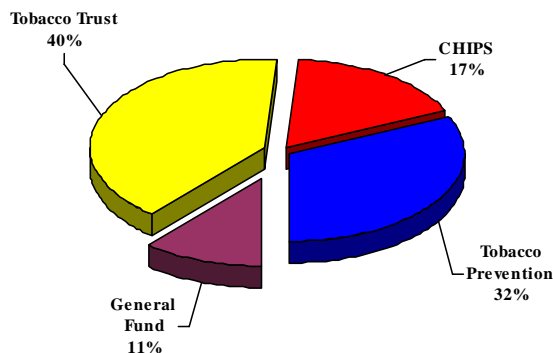
Tax Distribution (MCA) – Montana Constitution, Article X11, Section 4; 17-6-606; 53-4-1011

Date Due – annual payments from settling entities due April 15th (Master Settlement Agreement, Chapter IX(c)), General Tobacco annual payments through calendar 2016 due August 30th (General Tobacco Adherence Agreement)

Applicable Tax Rate(s): NA

Distribution: Due to passage of Constitutional Amendment 35 by the electorate in November 2000, the legislature is required to dedicate no less than 40 percent of tobacco settlement money to a permanent trust fund. Since the legislature has not yet determined the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. For fiscal 2003, the remaining 60 percent of the money was deposited to the general fund. Due to passage of Initiative 146 by the electorate in November 2002, beginning fiscal 2004, 32 percent of the tobacco settlement money funds tobacco prevention programs and 17 percent of the funds is used for the Children’s Health Insurance Program. The remaining 11 percent of the money is deposited to the general fund.

Distribution Chart:



Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Settlement

Collection Frequency: For fiscal 2003: The last initial payment is expected January 10, 2003 and the annual payment is expected April 15th 2003. Beginning fiscal 2004: Annual payments are expected each April 15th into perpetuity. General Tobacco, a new subsequent participating manufacturer, is required to make annual payments every August 30th through calendar 2016 for obligations incurred from 2000 to 2003.

% of Total General Fund Revenue:

FY 2004 - 0.21%

FY 2005 - 0.19%

FY 2006 - 0.16%

Revenue Estimate Methodology:

The derivation of the tobacco settlement revenue estimate involves many factors. The Master Settlement Agreement specifies base amounts to be paid by all participating manufacturers, but also allows various adjustments to be made to these payments.

Data

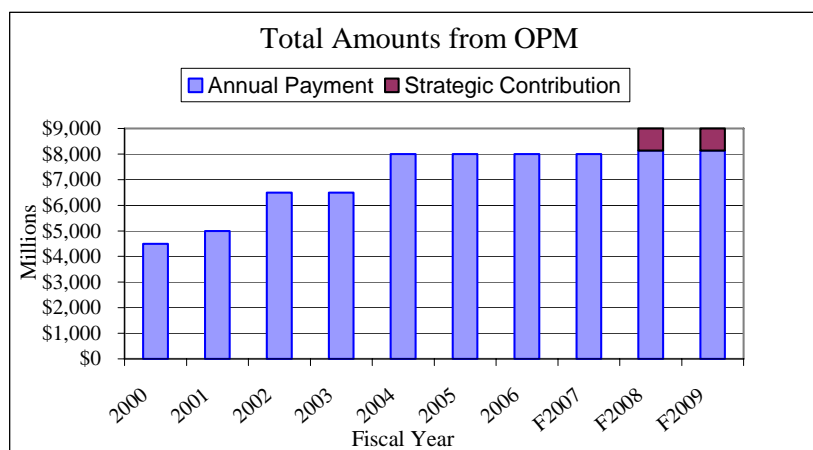
The Master Settlement Agreement, signed by the settling entities and participating tobacco manufacturers (PM), is the driving document for the procedure to use in determining how much the original participating manufacturers (OPM) to the agreement and the subsequent participating manufacturers (SPM) have to pay to the settling entities. PriceWaterhouseCoopers, the independent auditor to the agreement, gathers all the data and makes all the calculations required by the Master Settlement Agreement for determining what the PM owe. Documents produced by PriceWaterhouseCoopers provide the historic data needed to project future payments. Staff at the Montana Attorney General's office and the National Association of Attorneys General is also consulted. Since an adjustment for a change in volume of cigarettes shipped is necessary, various knowledgeable sources are consulted as to expected changes in smoking or the sale of cigarettes.

Payments

Currently, there are two types of payments from OPM:

1. On-going annual payments to be received April 15th each year of which Montana receives 0.4247591 percent. These payments are to be made in perpetuity and increase in FY 2008; and
2. Strategic contribution payments are made from FY 2008 through FY 2017 of which Montana receives 1.0447501 percent.

The table below shows the total of these payments available to all settling entities before any adjustments.



Manufacturers who subsequently participate in the agreement also make payments based on the total annual payments (but not strategic contribution payments) owed by the OPM. The amount of these payments is also subject to various adjustments.

Adjustments

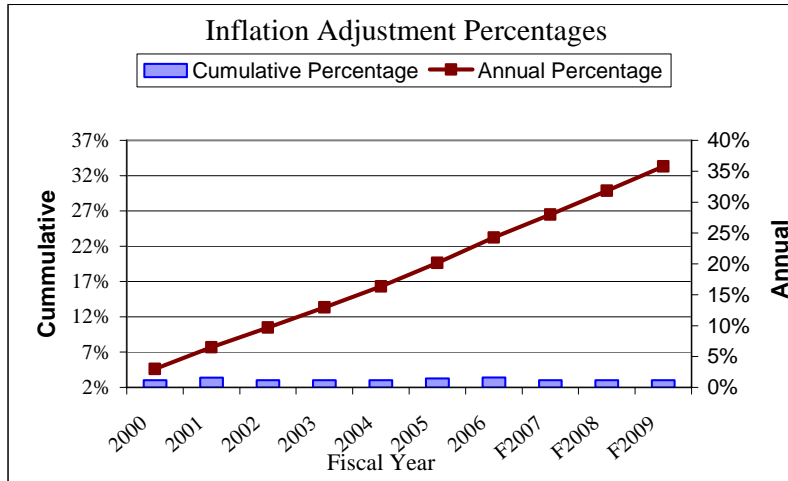
There are five potential adjustments to the payments.

Legislative Fiscal Division

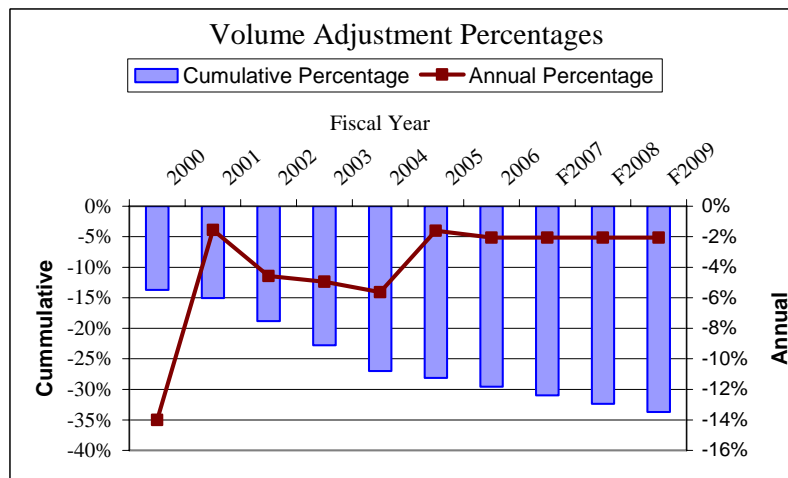
Revenue Estimate Profile

Tobacco Settlement

1. Inflation – As long as inflation is positive, this adjustment increases the amount owed by PM. The set amounts of the annual and the strategic contribution payments are increased by the greater of 3.0 percent or the amount of the Consumer Price Index for Urban Consumers. The effect is cumulative so that the previous year’s inflation percentage is increased by the current year’s amount plus the amount of the current year’s percentage. The chart shows the annual and cumulative inflation factors.



2. Volume – As the number of cigarettes shipped nationally decreases, payments by PM are reduced. The current number of cigarettes is compared to the 1997 base number of 475.656 billion cigarettes. A proxy for the estimated annual change in the number of cigarettes shipped is determined by developing an estimate for the percentage change in cigarette consumption. Like the inflation adjustment, the effect is cumulative so that the previous year’s percentage adjustment is increased by the current year’s amount plus the amount of the current year’s percentage. According to the settlement agreement, the cumulative percentage is then reduced by 2 percent. The chart shows the annual and adjusted cumulative volume factors.



3. Operating income – If the aggregate operating income from the OPM sales of cigarettes exceeds the 1996 base amount of \$7,060.840 million, as adjusted for inflation (see above) and by the percentage of states who have finalized acceptance of the agreement (100 percent since calendar 2001), then the dollar amount of the volume reduction is reduced and the amount of OPM payments increases. This adjustment has not been applied since calendar 2000.
4. Previous settling states – Previous to the Master Settlement Agreement, four states had settled lawsuits with certain cigarette manufacturers. The agreement recognized this by allowing reductions to the OPM annual payments (as adjusted for inflation and volume) of 12.45 percent through the FY 2007 payment, 12.24 percent through the FY 2017 payment, and

Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Settlement

11.07 percent thereafter.

5. Non-participating manufacturers (NPM) – If tobacco manufacturers who participate in the Master Settlement Agreement lose market share to those manufacturers who do not, their payments may be reduced. It must be shown that there was a loss of market share to NPM and that the disadvantages caused by the agreement were a significant factor contributing to the loss. However, the NPM adjustment does not apply to a state that had a “qualifying statute” in effect for the full year in question and had diligently enforced it. The “qualifying statute” requires a manufacturer who is not a PM to pay into a state-specific escrow account \$0.0167539 per cigarette sold in that state in CY 2006 and \$0.0188482 thereafter. Money in the account may be used to pay a judgment or settlement against the manufacturer. The Montana legislature enacted SB 359 (1999 session) and HB 663 (2003 session) in response to the agreement (see Title 15, Chapter 11, Parts 4 and 5). Although the agreement’s independent auditor calculates the NPM adjustment, it has never applied it to required payments.

The NPM adjustment is three times the market share loss of PM. Market share loss is determined by subtracting the current year market share of PM from the 1997 base market share of 99.5835 percent less 2.0 percentage points or 97.5835 percent.

This percentage difference is multiplied by the annual payment amount adjusted for inflation, volume, and previous settling states. If the computed market share loss exceeds 16-2/3 percent, the formula changes to reduce the percentage adjustment. For this to occur, the change in market share for all PM would have to fall to 80 percent. It is unlikely that this will occur. Based on this formula, the NPM adjustment would reduce Montana’s payments by \$3.1 million in FY 2007, \$3.3 million in FY 2008 and \$3.5 million in FY 2009, if all the conditions were met. The estimates include these reductions; not because all the conditions have been met, but because the PM may dispute a portion of a payment. Many PM feel the adjustment should be applied and have subsequently deposited disputed amounts into special escrow accounts until the issue is resolved. The end result for the settling entities is that some portion of the money is unavailable even though the adjustment was not applied to the payments. This occurred in the FY 2006 payment when \$3.5 million was withheld from Montana’s payment. It is anticipated that PM will continue to dispute a portion of future payments.

From FY 2002 – FY 2005, the agreement’s independent auditor has applied the formula and calculated NPM adjustments. If it is found that all necessary conditions have been met for these years, Montana is at risk of losing an additional \$14.4 million.

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Revenue Estimate Profile

Tobacco Settlement

Analysis

Once adjustments amounts have been calculated, the applicable adjustments to the OPM and SMP payments can be applied and other revenue components calculated.

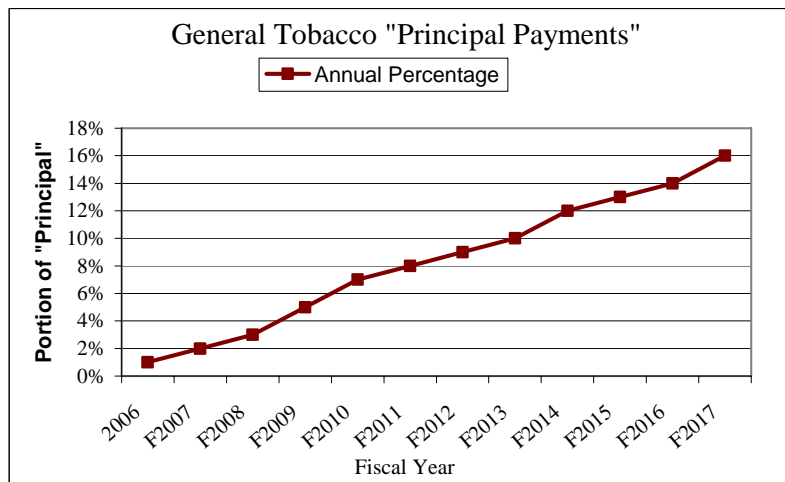
OPM Annual Payment - The estimate for tobacco settlement revenue from OPM is derived by first multiplying the payment amount by 1 plus the cumulative percentages for the inflation and volume adjustments and the previous settled states' percentage then adding the dollar amount of the operating income adjustment (zero) and the NPM adjustment. To this total amount, Montana's allocation of 0.4247591 percent is applied.

SPM Annual Payment - The estimate for tobacco settlement revenue from SPM is derived by a five-step process:

1. The volume adjustment (a reduction) is calculated by multiplying the annual OPM amount by the cumulative volume percentage.
2. A market share adjustment (a reduction) is calculated by subtracting the volume adjustment, derived above, and the base amount due from SPM from the OPM annual amount. Since the base amount is not likely to increase, the amount from the last known fiscal year is used.
3. The inflation adjustment (an addition) is calculated by multiplying the cumulative inflation percentage by the sum of: a) the OPM annual payment; b) the volume adjustment (number 1 above); and c) the market adjustment (number 2 above).
4. The NPM adjustment (a possible reduction), as determined above, is calculated.
5. The total OPM amount is adjusted by the above four adjustments and multiplied by 0.4247591 percent to obtain Montana's share.

OPM Strategic Contribution Payment – From FY 2008 through FY 2017, the OPM owe yearly strategic contribution payments to the settling entities in the amount of \$861,000,000. This amount is increased by the inflation adjustment and decreased by the volume adjustment, both described above. The result is multiplied by Montana's share of 1.0447501 percent.

General Tobacco – The General Tobacco Company joined the Master Settlement Agreement in August 2004 and will make future payments the same as the other SPM. However, the company entered into a separate agreement with the settling entities for making the required payments owed retroactively from the date of its joining to the date the Master Settlement Agreement was signed. These obligations total \$272.3 million. This "principal" amount will be paid yearly over a 12-year period based on a percentage schedule based on the year.



For fiscal years 2008 and 2009, the percentage of the "principal" to be paid is three percent and five percent, respectively. Interest on unpaid balances at five percent is then added to the "principal" payment. Once the total annual payment is calculated, it is multiplied by 0.4247591 percent to obtain Montana's share.

Legislative Fiscal Division

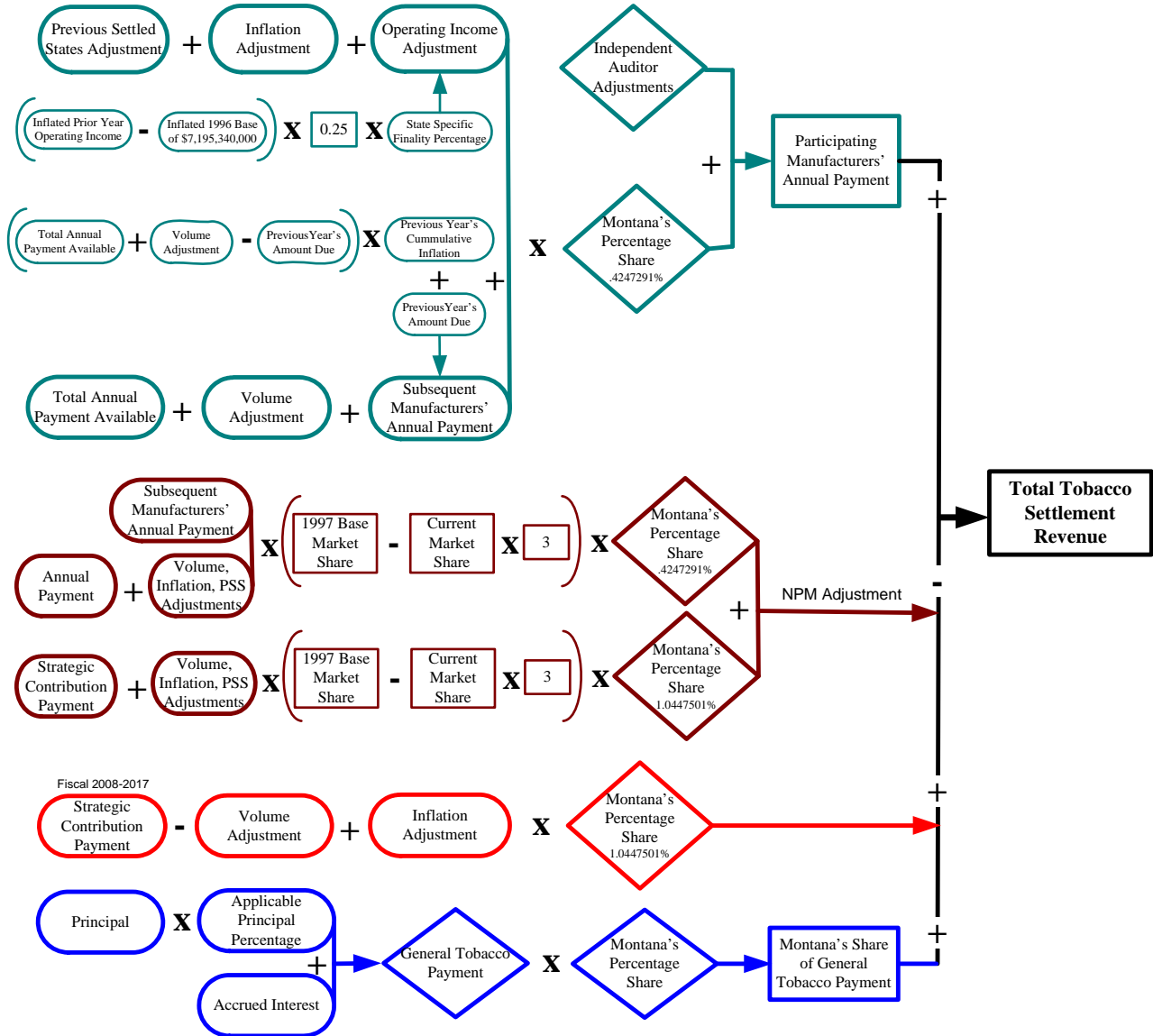
Revenue Estimate Profile

Tobacco Settlement

Adjustments and Distribution

Once total tax revenue for each fiscal year is determined, the applicable distribution percentages are applied.

Forecast Methodology



Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Settlement

Revenue Estimate Assumptions

	t	Total Settle	GF Settle	Initial	Annual	Annual	PSS	GF Allocation
	Fiscal	Millions	Millions	Payment	Payment	Share	Reduction	Percent
				Millions	Millions	Percent	Percent	Percent
Actual	2000	34.804411	34.804411	4872.000000	4500.000000	0.004247591	-0.124500000	1.000000
Actual	2001	26.639851	15.989101	2546.160000	5000.000000	0.004247591	-0.124500000	0.600195
Actual	2002	31.079018	18.647411	2622.544800	6500.000000	0.004247591	-0.124500000	0.600000
Actual	2003	31.166018	18.699611	2701.221144	6500.000000	0.004247591	-0.124500000	0.600000
Actual	2004	26.672072	2.933928	0.000000	8000.000000	0.004247591	-0.124500000	0.110000
Actual	2005	27.070703	2.977777	0.000000	8000.000000	0.004247591	-0.124500000	0.110000
Actual	2006	24.851033	2.733614	0.000000	8000.000000	0.004247591	-0.124500000	0.110000
Forecast	2007	25.654000	2.822000	0.000000	8000.000000	0.004247591	-0.124500000	0.110000
Forecast	2008	35.049000	3.855000	0.000000	8139.000000	0.004247591	-0.122373756	0.110000
Forecast	2009	36.323000	3.996000	0.000000	8139.000000	0.004247591	-0.122373756	0.110000

	t	Annual	Cummulative	Adjustment	Adjusted	Annual	Cummulative
	Fiscal	Vol. Change	Vol. Change	Factor	Vol. Change	CPI Change	CPI Change
		Percent	Percent	Percent	Percent	Percent	Percent
Actual	2000	-0.140094943	-0.140094943	0.980000000	-0.137293044	0.030000000	0.030000000
Actual	2001	-0.015542065	-0.153459643	0.980000000	-0.150390450	0.033868093	0.064884100
Actual	2002	-0.045780332	-0.192214542	0.980000000	-0.188370251	0.030000000	0.096830600
Actual	2003	-0.049400356	-0.232119431	0.980000000	-0.227477042	0.030000000	0.129735500
Actual	2004	-0.056361859	-0.275398607	0.980000000	-0.269890635	0.030000000	0.163627600
Actual	2005	-0.016096976	-0.287062498	0.980000000	-0.281321248	0.032555600	0.201510200
Actual	2006	-0.020662729	-0.301793732	0.980000000	-0.295757857	0.034156600	0.242549700
Forecast	2007	-0.020662729	-0.316220579	0.980000000	-0.309896167	0.030000000	0.279826200
Forecast	2008	-0.020662729	-0.330349328	0.980000000	-0.323742341	0.030000000	0.318221000
Forecast	2009	-0.020662729	-0.344186138	0.980000000	-0.337302415	0.030000000	0.357767600

	t	Op. Income	SPM	General	NPM	Strategic	Strategic
	Fiscal	Adjustment	Payment	Tobacco	Adjustment	Payment	Share
		Millions	Millions	Millions	Millions	Millions	Percent
Actual	2000	40.787986	46.446683			0.000000	0.000000000
Actual	2001	64.221594	78.134224			0.000000	0.000000000
Actual	2002	0.000000	144.417783			0.000000	0.000000000
Actual	2003	0.000000	240.733198			0.000000	0.000000000
Actual	2004	0.000000	293.806967			0.000000	0.000000000
Actual	2005	0.000000	353.012068	0.000000	0.000000	0.000000	0.000000000
Actual	2006	0.000000	438.635039	0.072141	-3.004526	0.000000	0.000000000
Forecast	2007	0.000000	561.376615	0.080386	-3.086815	0.000000	0.000000000
Forecast	2008	0.000000	740.018443	0.090796	-3.251644	861.000000	0.010447501
Forecast	2009	0.000000	1004.773065	0.112194	-3.451062	861.000000	0.010447501

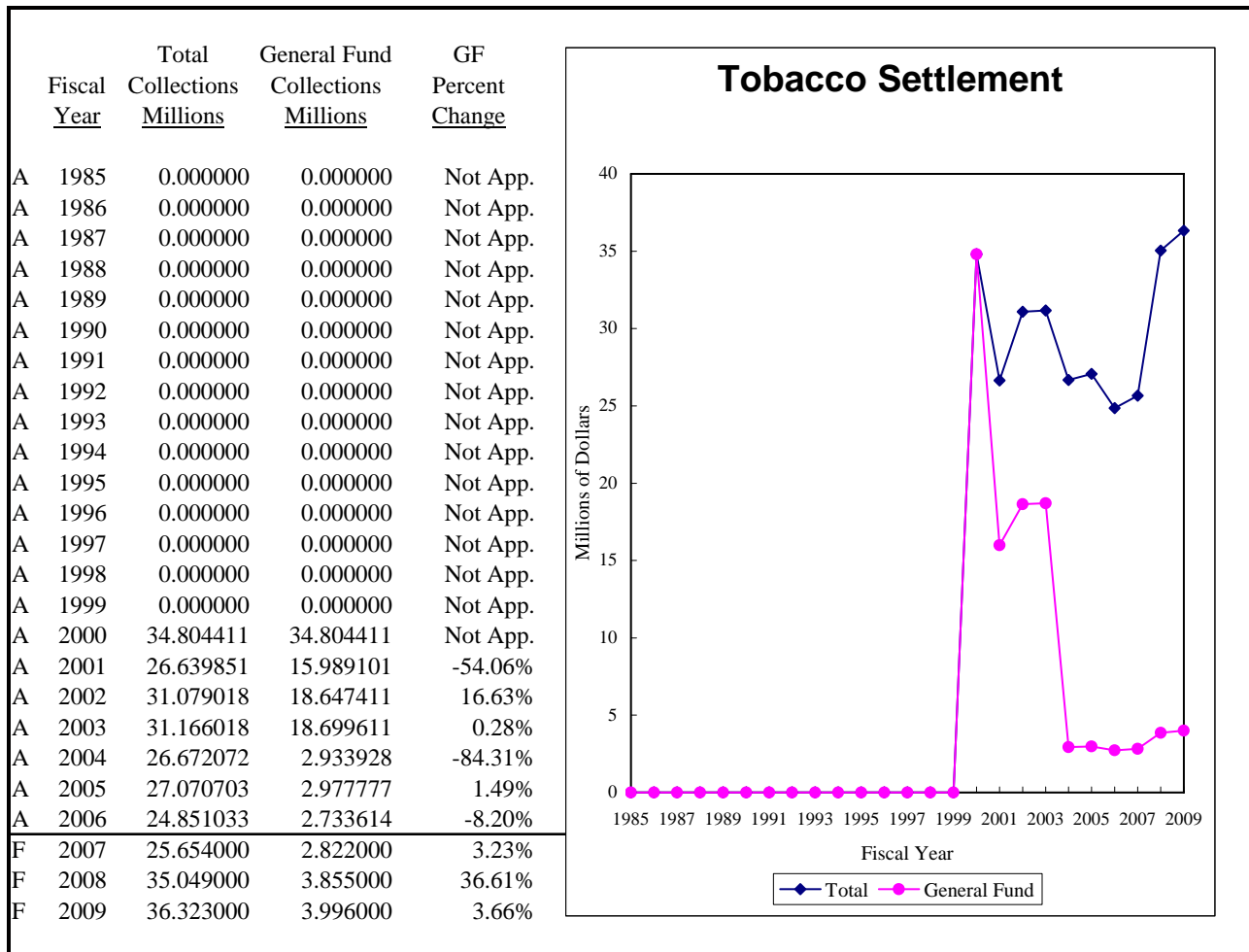
Total Settle = (Annual Payment * ((1+ Cumulative CPI Change) * (1+ Adjusted Vol. Change) * (1+ PSS Reduction))
 + Op. Income Adjustment + SPM Payment) * Annual Share + General Tobacco + NPM Adjustment
 + Strategic Payment * (1+ Cumulative CPI Change) * (1+ Adjusted Vol. Change) * Strategic Share
 GF Settle = Total Settle * GF Allocation

Legislative Fiscal Division

Revenue Estimate Profile

Tobacco Settlement

Revenue Projection:



Data Source(s):

Master Settlement Agreement (as amended), Center for Disease Control and Prevention, National Council of State Legislatures, National Association of Attorneys General, Tobacco companies' 10Q report

Contacts: Department of Justice