

State Notes

TOPICS OF LEGISLATIVE INTEREST

November/December 2008



Prisoner Health Care Contract Update By Lindsay Hollander, Fiscal Analyst

Pursuant to the United States Constitution and Federal court orders, the Michigan Department of Corrections (MDOC) provides health care to inmates incarcerated in State correctional facilities. Health care is provided at prison clinics by MDOC employees, as well as providers hired by Correctional Medical Services, Inc. (CMS). Additionally, the MDOC has had a contract with CMS since 1998 for all outside hospital and specialty care services. The current contract expires March 31, 2009. The primary difference between community-based and outpatient medical services arranged by the MDOC and those arranged by CMS is that the billing and contract negotiation are privatized. The actual outpatient medical services are still provided by outside service providers, as they were before 1997 when the MDOC first began contracting for these services. Correctional Medical Services, Inc. contracts with Blue Cross/Blue Shield and other medical service providers to provide care to inmates.

Correctional Medical Services, Inc. also hires Medical Service Providers (MSPs), who include physicians, physician assistants, and nurse practitioners, to staff the MDOC's prison clinics. The MDOC pays CMS Civil Service rates for the MSPs. Correctional Medical Services, Inc. does not have to pay these employees Civil Service rates and may pay more or less depending on regional market factors. The MDOC provides all pharmacy services, dental care, and vision care internally by Civil Service employees. Pharmaceuticals are supplied through a contract with PharmaCor, which is a subsidiary of CMS. The PharmaCor contract expires September 30, 2009.

Expenditures for prisoner health care rose by more than 50% over the past five years while the prison population grew by less than 4.0% during the same period. Table 1 outlines historical expenditures for prisoner health care.

Table 1

Prisoner Health Care¹⁾ Expenditure History					
Fiscal Year	2003-04	2004-05	2005-06	2006-07	2007-08
Prison Clinics ²⁾	\$39,794,421	\$44,531,550	\$51,894,984	\$54,202,754	\$56,284,760
Duane Waters Health Center & Infirmaries	5,603,134	7,771,617	8,284,781	9,386,268	10,179,661
Pharmacy	21,049,841	26,180,389	29,483,788	29,539,377	32,189,118
Administration	22,886,155	21,142,032	18,326,805	26,119,420	28,648,825
Telemedicine	38,760	45,874	44,737	53,293	68,465
Hospital & Specialty Care	53,278,112	57,641,934	71,133,440	95,244,861	93,236,172
Other	3,092,269	3,378,682	3,787,115	3,935,816	4,175,269
Total	\$145,742,693	\$160,692,077	\$182,955,650	\$218,481,788	\$224,782,270

¹⁾ Excludes dental care and mental health and psychological services.
²⁾ Includes MSPs, laboratory, and X-ray expenditures.

Source: Michigan Administrative Information Network

Both the primary expense and the driver of increased costs have been hospital and specialty care services provided by CMS. Not only has the cost of these services been increasing, but it

State Notes
TOPICS OF LEGISLATIVE INTEREST
 November/December 2008



has been increasing at a faster rate than other health care expenditures have risen. Additionally, hospital and specialty care expenditures take up a greater proportion of the total health care expenditure than they did five years ago. Table 2 and Table 3 show that hospital and specialty care was 41.5% of the total health care expenditure in FY 2007-08, in comparison to 36.6% in fiscal year (FY) 2003-04. This is because the hospital and specialty care services expenditure rose by 75.0%, while the total health care expenditure increased by 54.2%. The only other categories rising at a faster rate than the total expenditure were Telemedicine¹, and Duane Waters Health Center and Infirmaries, which together take up less than 5.0% of health care expenditures.

Table 2

Prisoner Health Care¹⁾ Expenditures - Percent of Total						
	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	Difference Between '03-'04 & '07-'08
Prison Clinics ²⁾	27.3%	27.7%	28.4%	24.8%	25.0%	(2.3)%
Duane Waters Health Center & Infirmaries	3.8	4.8	4.5	4.3	4.5	0.7
Pharmacy	14.4	16.3	16.1	13.5	14.3	(0.1)
Administration	15.7	13.2	10.0	12.0	12.7	(3.0)
Telemedicine	0.0	0.0	0.0	0.0	0.0	0.0
Hospital and Specialty Care	36.6	35.9	38.9	43.6	41.5	4.9
Other	2.1	2.1	2.1	1.8	1.9	(0.3)

1) Excludes dental care and mental health and psychological services.
 2) Includes MSPs, laboratory, and X-ray expenditures.

Source: Michigan Administrative Information Network

Table 3

Percent Change in Prisoner Health Care¹⁾ Expenditures						
	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY '03-'04 to FY '07-'08
Prison Clinics ²⁾	5.6%	11.9%	16.5%	4.4%	3.8%	41.4%
Duane Waters Health Center & Infirmaries	(17.9)	38.7	6.6	13.3	8.5	81.7
Pharmacy	(6.1)	24.4	12.6	0.2	9.0	52.9
Administration	8.9	(7.6)	(13.3)	42.5	9.7	25.2
Telemedicine	(81.0)	18.4	(2.5)	19.1	28.5	76.6
Hospital & Specialty Care	(2.6)	8.2	23.4	33.9	(2.1)	75.0
Other	(17.6)	9.3	12.1	3.9	6.1	35.0
Total	(0.6)%	10.3%	13.9%	19.4%	2.9%	54.2%
Percent Change in Prison Population	(1.2)	0.0	2.6	2.2	(1.5)	3.3

1) Excludes dental care and mental health and psychological services
 2) Includes MSPs, laboratory, and X-ray expenditures.

Source: Michigan Administrative Information Network

¹ Telemedicine is the use of electronic communications and video conferencing to provide medical care.



Amid rising costs, the Department of Management and Budget (DMB) issued a Request for Proposals (RFP) for hospital and specialty care services in 2007. The RFP included a design for a new contract cost structure. The process yielded only one bid that met the RFP's specifications, and this vendor pulled out of the process. The DMB then renewed the State's contract with CMS for an additional year, which will expire March 31, 2009. In May 2008, the DMB issued another RFP for hospital and specialty care services. The cost structure outlined in this RFP differs from the 2007 RFP and the current contract that the State has with CMS. The MDOC pays CMS for health care services rendered by hospitals and specialty care providers. As the MDOC's cost for services goes up, CMS' clinical management fees go down according to thresholds outlined in the contract. This fee structure was designed to give CMS an incentive to keep the MDOC's health care costs down. The payment amount is calculated by taking a per diem rate and multiplying it by the average number of prisoners incarcerated for the month. The per diem rate is adjusted quarterly based on actual expenditures for health care. During the past three years, the MDOC's cost for services has actually been at the top threshold, so CMS receives the minimum clinical management fee possible, which is currently 14.59% of costs.

The new contract design will include a target price for hospital and specialty care services and MSPs. Any health care costs above this amount will be shared between the State and the contractor, up to a cap. The contractor is responsible for any health care costs in excess of the cap. Any savings also will be shared in this shared-risk arrangement. This pricing model is similar to the CMS contract prior to April 1, 1999. According to the RFP, the new plan also will charge the contractor with maximizing the use of telemedicine. Table 3 reveals that telemedicine spending has steadily increased as telemedicine equipment has been installed in correctional facilities. Increasing use will further reduce costs associated with transporting inmates to the community for medical appointments.

The DMB has chosen Prison Health Services (PHS) as its preferred vendor for the new contract. Prison Health Services, like CMS, is a national correctional health care company that various states and counties contract with for health care services. Just as PHS will likely be awarded this contract in Michigan that is presently held by CMS, CMS has won contracts in other states that have been held by PHS. Prison Health Services currently has contracts with four states, as well as numerous counties throughout the country, including Michigan's Kent and Genesee Counties. Tennessee-based PHS is a subsidiary of America Service Group, Inc. which also owns Correctional Health Services, Inc., a company that provides correctional health services in several county jails and juvenile facilities in New Jersey. The State Administrative Board likely will make a decision on the contract award in January.

The FY 2008-09 MDOC appropriations act is predicated on reducing expenditures by \$4.0 million through hospital and specialty care services contract changes. According to the award recommendation letter to Prison Health Services dated December 4, 2008, the three-year contract would total \$325,594,397 for MSPs and hospital and specialty care services. If this is the amount that the MDOC pays to PHS over three years, the annual cost will be similar to that paid to CMS during FY 2007-08. Thus, \$4.0 million in hospital and specialty care savings would not be realized during FY 2008-09, or in future contract years.