

**Joint Legislative Committee on Performance
Evaluation and Expenditure Review (PEER)**

Report to
the Mississippi Legislature



An Analysis of the Division of Medicaid's Projected Fiscal Year 2010 Cash Shortfall, as of March 29, 2010

State law requires that the Division of Medicaid (DOM) report any projected shortfall to the PEER Committee and that PEER review the computations of the division and report its findings to the Legislative Budget Office. On March 11, 2010, the Division of Medicaid (DOM) notified PEER that the state's Medicaid program had an estimated FY 2010 projected cash flow shortfall of \$14.6 million, an estimate that the division had prepared as of February 22, 2010. The DOM updated this projection on March 29, 2010, and revised the estimate to a projected cash flow shortfall of \$14.3 million. These cash flow projections refer to the state matching funds required for the Medicaid program and do not include federal program dollars.

PEER acknowledges that unexpected items and items contingent on future decisions may have a significant impact, either positive or negative, on the DOM's budget and on cash flow projections. Overall, the Division of Medicaid's method of estimating cash flow projections is sound and reasonable, given available information. However, PEER believes a more rigorous approach is needed for estimating medical services expenditure increases for the remaining months of any given fiscal year. Also, the division does not perform projections on a predetermined schedule or on the same day of each month.

To address the projected \$14.3 million shortfall, DOM has proposed reducing payments to Medicaid providers and collecting assessments from hospitals, taking additional administrative reductions, and collecting unpaid assessments of long-term care facilities.

PEER: The Mississippi Legislature's Oversight Agency

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A joint committee, the PEER Committee is composed of seven members of the House of Representatives appointed by the Speaker and seven members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms, with one Senator and one Representative appointed from each of the U. S. Congressional Districts and three at-large members appointed from each house. Committee officers are elected by the membership, with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of four Representatives and four Senators voting in the affirmative.

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PEER provides a variety of services to the Legislature, including program evaluations, economy and efficiency reviews, financial audits, limited scope evaluations, fiscal notes, special investigations, briefings to individual legislators, testimony, and other governmental research and assistance. The Committee identifies inefficiency or ineffectiveness or a failure to accomplish legislative objectives, and makes recommendations for redefinition, redirection, redistribution and/or restructuring of Mississippi government. As directed by and subject to the prior approval of the PEER Committee, the Committee's professional staff executes audit and evaluation projects obtaining information and developing options for consideration by the Committee. The PEER Committee releases reports to the Legislature, Governor, Lieutenant Governor, and the agency examined.

The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

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April 20, 2010

Honorable Haley Barbour, Governor
Honorable Phil Bryant, Lieutenant Governor
Honorable Billy McCoy, Speaker of the House
Members of the Mississippi State Legislature

On April 20, 2010, the PEER Committee authorized release of the report entitled **An Analysis of the Division of Medicaid's Projected Fiscal Year 2010 Cash Shortfall, as of March 29, 2010.**


Senator Nolan Mettetal, Chair

This report does not recommend increased funding or additional staff.

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An Analysis of the Division of Medicaid's Projected Fiscal Year 2010 Cash Shortfall, as of March 29, 2010

Executive Summary

Introduction

House Bill 71, Second Extraordinary Session of 2009, requires PEER to review the Division of Medicaid's computations of expected cash shortfalls and report the results of its review to the Legislative Budget Office.

On March 11, 2010, the Division of Medicaid (DOM) notified PEER that the state's Medicaid program had an estimated FY 2010 projected cash flow shortfall of \$14.6 million, an estimate that the division had prepared on February 22, 2010.* The DOM updated this projection on March 29, 2010, and revised the estimate to a projected cash flow shortfall of approximately \$14.3 million.

PEER sought to review, understand, and where possible, verify the components of DOM's estimated FY 2010 cash flow projections and thereby provide decision makers with the information necessary for an informed and appropriate course of action. PEER sought to verify the March 29, 2010, projection because it represented the most recent estimate available.

Impact of Unexpected Items and Contingencies on the Division of Medicaid's

Budget

The largest component of DOM's budget is medical services and the actual expenditures for medical services differ from the estimate due to variances in the actual number of Medicaid recipients compared to the estimated number and due to differences in the actual mix of medical services.

Also, changes in state law, changes in federal regulations, and rulings and decisions by the Centers for Medicare and Medicaid Services (CMS), the federal agency that oversees Medicare and Medicaid programs, may affect DOM's expenditures. Further, contingencies may arise during a

* The cash flow projections in this report refer to the state matching funds required for the Medicaid program and do not include federal program dollars.

year of which the outcome may be unknown for a lengthy period, but their impact, either positive or negative, must be considered.

The following are examples of the types of unforeseen items and uncertain situations encountered during FY 2010 that had or could have had an impact on DOM's projected shortfall:

- an increased Federal Medical Assistance Percentage (FMAP) for medical services;
- an increased Federal Medical Assistance Percentage for Medicare Part D clawback payments;
- uncertainty of collection of hospital assessments;
- a Governor-directed budget reduction; and,
- a legislatively directed budget reduction.

The Division of Medicaid's Cash Flow Projection and Proposed Actions

DOM's Cash Flow Projection Process

The Division of Medicaid's process to project cash flow is based on reasonable methodology and estimates, given available information. On March 29, 2010, the DOM projected a FY 2010 cash flow shortfall of approximately \$14.3 million.

The DOM's cash flow projections determine the total amount of state funds available to the division and estimate, based on current information, the fiscal year-ending cash surplus or deficit.

As shown in Exhibit A, page ix, as of March 29, 2010, DOM projected a cash shortfall of approximately \$14.3 million for Fiscal Year 2010 based on projections and estimates at that time. PEER believes that the projected shortfall was determined through a process containing reasonable methodology and estimates.

PEER cautions the reader that the projected \$14.3 million shortfall is only an estimate and the projected year-ending cash balance will change as variables in the Medicaid program change during the remainder of FY 2010. Pages 11 through 17 of the report contain an analysis of the components of the cash flow projection.

Issues Regarding DOM's Cash Flow Projections

PEER believes that overall, the Division of Medicaid's method of estimating cash flow projections is sound and reasonable. However, PEER believes a more rigorous approach is needed for estimating expenditure increases for the remaining months of any given fiscal year. Also, the division does not perform projections on a predetermined schedule or on the same day of each month.

Although PEER believes DOM's overall cash flow projection process to be sound and reasonable, slight modifications could improve accuracy of the process.

Exhibit A: The Division of Medicaid's Projected FY 2010 Cash Shortfall as of March 29, 2010

Estimated Funds Available	
Total cash available as of March 29, 2010	\$ 40,459,349
Estimated other funding sources through June 30, 2010	121,021,038
<i>Estimated total funds available</i>	\$161,480,387
Estimated Expenditures	
Estimated medical service claims and administrative expenses through June 30, 2010	\$153,092,563
Estimated other medical service type expenses through June 30, 2010	22,726,608
<i>Estimated total expenditures through June 30, 2010</i>	\$175,819,171
<i>Projected cash shortfall June 30, 2010</i>	<i>(\$14,338,784)</i>

SOURCE: PEER review and compilation of DOM records.

Although DOM used historical experience to determine the FY 2010 year-to-date expenditure increase of 8.6% in medical services expenditures, DOM did not use historical experience to arrive at the 1.75% add-on for medical services expenditures (see page 17 of the report). Also, in determining the FY 2010 year-to-date expenditure increase of 8.6%, DOM used expenditure amounts for only two points in time: July 2009 and February 2010.

PEER believes a more rigorous approach is needed when estimating medical service expenditure increases for the remaining months of any given fiscal year. PEER endorses the use of historical experience to estimate future

expenditure increases. However, PEER believes that more points in time must be used to determine a more accurate estimate. PEER suggests the use of a methodology that analyzes changes in expenditures from one month to the following month for a twelve- to eighteen-month window.

From August 2009 through March 2010, the DOM performed a cash flow projection at least once each month, on the following dates:

- August 17, 26, and 31, 2009;
- September 8, 14, 23, and 28, 2009;
- October 19 and 26, 2009;
- November 9 and 30, 2009;
- December 7, 2009;
- January 18, 2010;
- February 8 and 22, 2010; and,
- March 29, 2010.

The projections were not performed on a predetermined schedule or on the same day of each month so that DOM staff and appropriate legislative chairs could be kept apprised of the cash flow situation on a regular basis.

After projecting an estimated cash flow shortfall of \$4.5 million as of January 18, 2010, DOM did not utilize the authority granted to it under House Bill 71, Second Extraordinary Session of 2009, to fund the projected shortfall. Although House Bill 71 directs DOM to notify the PEER Committee of expected shortfalls, DOM did not notify PEER following the projected \$4.5 million shortfall from the January 18, 2010, estimate.

How the Division of Medicaid Plans to Address the FY 2010 Shortfall

DOM's proposed actions to address the \$14.3 million shortfall estimated March 29, 2010, are not barred by the provisions of MISS. CODE ANN. §43-13-117 (1972).

To address the projected \$14.3 million shortfall, DOM has proposed:

- reducing payments to Medicaid providers and collecting assessments from hospitals;
- taking additional administrative reductions; and,
- collecting unpaid assessments of long-term care facilities.

The following chart shows the approximate amounts that would be yielded by these actions.

Reductions to Medicaid providers and hospital assessments	\$9.5 million
Reductions to DOM administration*	\$.2 million
Collection of unpaid assessments from long-term care facilities	\$4.6 million
Total	\$14.3 million

*These reductions would be in addition to a \$4.2 million reduction taken in December 2009. To date, FY 2010 administrative reductions total \$4.4 million.

DOM notes that the proposed reductions are for April, May, and June 2010 and DOM intends to resume payments at regular rates on July 1, 2010. The Division of Medicaid is awaiting CMS's approval of these provider reimbursement reductions.

Recommendations

1. The Division of Medicaid should perform its cash flow projections on a predetermined monthly schedule and make this information available, upon request, to the Chairs of the Senate Public Health and Welfare Committee, the House Medicaid Committee, and the House and Senate Appropriations committees, as well as to the Legislative Budget Office.
2. The Division of Medicaid should notify PEER within five business days of any projected shortfall that is significant enough to cause an anticipated reduction in budget authority or that could cause the division to seek additional funding.
3. The Division of Medicaid should modify its process for estimating expenditure increases for the remaining months of a fiscal year by including the use of twelve to eighteen months of historical experience.
4. The Chairs of the Senate Public Health and Welfare Committee, the House Medicaid Committee, and the House and Senate Appropriations committees should discuss with the Division of Medicaid the provisions of H. B. 71, Second Extraordinary Session of 2009, regarding the division's accessing

of the Health Care Trust Fund. The discussion should include a determination of whether additional legislative action is needed to clarify the provision.

For More Information or Clarification, Contact:

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An Analysis of the Division of Medicaid's Projected Fiscal Year 2010 Cash Shortfall, as of March 29, 2010

Introduction

Authority

PEER conducted this study pursuant to the authority granted in MISS. CODE ANN. Section 5-3-51 et seq. (1972) and the mandate in House Bill 71, Second Extraordinary Session of 2009, which requires PEER to review the Division of Medicaid's computations of expected cash shortfalls and report the results of its review to the Legislative Budget Office. (See "Statutory Basis for Review of Shortfall Projections," page 4 of this report.)

Problem Statement

Because the state's Medicaid program requires the allocation of a significant amount of state resources, predicting the amount of state funds required is of paramount importance. Decision makers need projections that are as timely and accurate as possible in order to address projected shortfalls early in a fiscal year when a wider range of options is available. However, the complexity and size of the Medicaid program make the accurate projection of funds required an ongoing endeavor in which surpluses or shortfalls can change by millions of dollars over a period of days.

On March 11, 2010, the Division of Medicaid (DOM) notified PEER that the state's Medicaid program had an estimated FY 2010 projected cash flow shortfall of \$14.6 million, an estimate that the division had prepared as of February 22, 2010. The DOM updated this projection on March 29, 2010, and revised the estimate to a projected cash flow shortfall of \$14.3 million.

PEER sought to review, understand, and where possible, verify the components of DOM's estimated FY 2010 cash flow projections and thereby provide decision makers with the information necessary for an informed and appropriate course of action. PEER sought to verify the March 29, 2010, projection because it represented the most recent estimate available.

Scope and Purpose

PEER focused on the Department of Medicaid's March 29, 2010, cash flow projection for FY 2010 and how the components of the projection were determined by reviewing DOM's financial management information and supporting schedules, documents and calculations. The cash flow projections in this report refer to the state matching funds required for the Medicaid program and do not include federal program dollars.

The financial management information and supporting documentation are the assertions of DOM. In its review, PEER relied on DOM's financial management information and obtained reasonable and adequate supporting documentation for the financial information presented. PEER did not audit the financial information or supporting information and accordingly does not offer assurance regarding the accuracy of such information. The purpose of PEER's review was to determine whether DOM's projections were supported by adequate documentation and based on reasonable assumptions given current information.

To allow the reader a fuller understanding of the environment and factors influencing Medicaid funding and cash flow projections, this report's "Background" section, page 4, contains a discussion of the legal environment surrounding DOM and examples of financial situations that occurred during FY 2010 that have impacted DOM's financial condition. The report also details DOM's calculation of the projected shortfall as of March 29, 2010, and includes DOM's cash flow projections prepared earlier in FY 2010.

Method

In accomplishing its objectives, PEER was required to work closely with the DOM staff, who provided open access to and understanding of their records, appropriate reports, and evaluative processes (including assumptions, governing principles, and methodology).

PEER examined DOM's most recent cash flow projection dated March 29, 2010, to determine:

- the components of the projections;
- the supporting information and schedules for each component;

- DOM's methodology in calculating the components of the projection; and,
- factors beyond DOM's budget calculations that impact cash flow projections.

PEER also reviewed DOM's FY 2010 cash flow projections prepared prior to March 29, 2010, to determine whether consistent methodology was used in preparing the earlier projections and the projected surpluses or shortfalls calculated in the earlier projections.

Background

Statutory Basis for Review of Shortfall Projections

State law requires that the Division of Medicaid report any projected shortfall to the PEER Committee and that PEER review the computations of the division and report its findings to the Legislative Budget Office.

In 2009, the Legislature adopted a comprehensive amendment to MISS. CODE ANN. Section 43-13-117 (1972) to address reductions in the Medicaid budget. This amendment, found in Section 2, Chapter 118, Second Extraordinary Session of 2009, set out the following regarding cuts to the Medicaid budget:

- a source of funding upon which the Division of Medicaid could draw as a source of funds to avoid cuts, that being the Health Care Trust Fund's Expendable Fund;
- a requirement that the PEER Committee be notified of any projected shortfall so that it can produce a review of the Division of Medicaid's basis for projecting a shortfall; and,
- limitations on the amount of reductions that can be borne by hospitals.

Regarding PEER's oversight of the process, the above-cited provision states:

. . . Beginning in fiscal year 2010 and in fiscal years thereafter, when Medicaid expenditures are projected to exceed funds available for any quarter in the fiscal year, the division shall submit the expected shortfall information to the PEER Committee, which shall review the computations of the division and report its findings to the Legislative Budget Office within thirty (30) days of such notification by the division, and not later than January 7 in any year. . . .

PEER was given notice of a projected shortfall in the Division of Medicaid's budget on March 11, 2010. While this date is over two months past the January 7 deadline for PEER to report an analysis of a shortfall to the Legislative Budget Committee, the staff proceeded with an analysis of the Division of Medicaid's planned reductions. This analysis was conducted with the knowledge that funding of Medicaid is a vital matter for the Legislature and that a review of the assumptions behind the proposed reductions would be beneficial to the legislative process.

Impact of Unexpected Items and Contingencies on the Division of Medicaid's Budget

Unexpected items and items contingent on future decisions may have a significant impact, either positive or negative, on the DOM's budget and on cash flow projections.

As with all state agencies, DOM presents a budget request for each fiscal year and the Legislature appropriates an amount to the agency. DOM's budget request is based on the agency's estimate of expenditures for the upcoming fiscal year. The largest component of DOM's budget is medical services and the actual expenditures for medical services differ from the estimate due to variances in the actual number of Medicaid recipients compared to the estimated number and due to differences in the actual mix of medical services. For example, inpatient hospital days could be higher than estimated due to a more severe flu season or lower if the flu season is milder than normal.

Also, changes in state law, changes in federal regulations, and rulings and decisions by the Centers for Medicare and Medicaid Services (CMS), the federal agency that oversees Medicare and Medicaid programs, may affect DOM's expenditures. Further, contingencies may arise during a year of which the outcome may be unknown for a lengthy period, but their impact, either positive or negative, must be considered.

The following items are examples of the types of unforeseen items and uncertain situations encountered during FY 2010 that had or could have had an impact on DOM's projected shortfall:

- an increased Federal Medical Assistance Percentage (FMAP) for medical services;
- an increased Federal Medical Assistance Percentage for Medicare Part D clawback payments;
- uncertainty of collection of hospital assessments;
- a Governor-directed budget reduction; and,
- a legislatively directed budget reduction.

The following sections contain discussions of these examples.

Increased Federal Medical Assistance Percentage for Medical Services

An unanticipated increase in the Federal Medical Assistance Percentage (FMAP) reduced DOM's required matching funds by approximately \$15.8 million for FY 2010.

An unanticipated increase in the Federal Medical Assistance Percentage (FMAP)¹ resulted in an estimated reduction of \$15.8 million in required state matching funds. However, PEER cautions the reader that the \$15.8 million is based on current projections of medical service expenditures. The actual amount of the reduction will vary according to the increase or decrease of actual medical service expenditures in relation to the projected medical service expenditures.

The American Recovery and Reinvestment Act (ARRA) provides funds to support Medicaid by increasing the FMAP. ARRA provided a 6.2% increase to all states' FMAPs and additional funds based on a state's average monthly employment rates. The enhanced FMAP from ARRA funds is currently set to expire December 31, 2010.

On December 28, 2009, CMS officially notified DOM that effective October 1, 2009, Mississippi's FMAP had increased from 84.24% to 84.86% due to increased unemployment in the state. The increased FMAP reduced DOM's required state matching funds by an estimated amount of approximately \$15.8 million based on estimated medical service expenditures as of March 29, 2010. This situation serves as an example of an unanticipated event that had a positive impact on DOM's budget.

Increased Federal Medical Assistance Percentage for Medicare Part D Clawback Payments

The U. S. Department of Health and Human Services' decision to apply the enhanced FMAP in calculating states' share of Medicare Part D premium payments is expected to reduce DOM's payments by approximately \$14 million in FY 2010.

A decision by the U. S. Department of Health and Human Services to use the enhanced FMAP in calculating states' share of Medicare Part D premium payments resulted in an estimated savings of \$36 million to DOM that will be realized in FY 2010 and FY 2011. On February 18, 2010, the Secretary of the U. S. Department of Health and Human Services announced that the ARRA's enhanced FMAP will be applied to the states' share of the cost of Medicare

¹ The *Federal Medical Assistance Percentage* (FMAP) is the federal share of funds used to support social services such as state medical and medical insurance expenditures. A state's FMAP is based on the state's per capita income relative to the per capita income of the continental United States.

coverage for prescription drugs for persons eligible for both Medicare and Medicaid.

The states' payments, known as *clawback* payments, are those payments states make to the federal government as required by the Medicare Prescription Drug Improvement and Modernization Act of 2003. The clawback payments offset some of the additional expenses incurred under Medicare Part D of assuming drug costs for persons eligible for Medicare and Medicaid.

The ARRA-enhanced FMAP rates will be applied to the states' clawback payments retroactively for October 1, 2008, through December 31, 2010. By increasing the FMAP, the states' portion of the clawback payments is reduced. The reduction in payments was applied as a credit on clawback payments for months beginning February 2010. The total estimated reduction in Mississippi's clawback payments is approximately \$36 million, with approximately \$14 million of that realized in FY 2010. This event also had a positive impact on DOM's budget and was not anticipated during the budget process for FY 2010.

Uncertainty of Collection of Hospital Assessments

After eight months of uncertainty, CMS approved DOM's proposed Disproportionate Share Hospital/Upper Payment Limit state plan amendment and related calculation model. CMS approval was required prior to assessing hospitals \$53 million as authorized by House Bill 71, Second Extraordinary Session of 2009.

In March 2010, after eight months of uncertainty, CMS approved DOM's new Disproportionate Share Hospital² (DSH)/Upper Payment Limit³ (UPL) state plan amendment and related calculation model. House Bill (HB) 71 of the Second Extraordinary Session of 2009 authorized the DOM to collect an assessment from hospitals on each non-Medicare hospital inpatient day for FY 2010 through FY 2012. The amount of the assessment is dependent on the level of the state's matching fund percentage for the Medicaid program. For FY 2010, the assessment is \$67 million. Of this amount, \$53 million was contingent on CMS's approval of a new DSH/UPL state plan amendment and related calculation model.

Since the collection of this assessment was contingent on state plan amendment approval by CMS, the collection of this \$53 million assessment was uncertain from as early as July 2009 until final approval from CMS in late March 2010. Prior to the CMS approval, DOM showed this

² *Disproportionate Share Hospital* payments are made to hospitals that serve a large number of low-income patients, such as uninsured individuals or recipients of Medicaid.

³ *Upper Payment Limit* payments are reimbursements to hospitals based on estimates of what would have been paid for Medicaid services under Medicare payment principles.

assessment as an uncertainty that could reduce any surplus or increase any shortfall. Thus this item is an example of an event that could have had a negative impact on DOM's budget, remained an uncertainty for a lengthy period, and now will positively affect DOM's budget. DOM has not completed calculations of each hospital's share of the assessment, but is certain funds will be collected prior to the end of the fiscal year.

Governor-Directed Budget Reductions

In response to declining state revenues, and under the provisions of MISS. CODE ANN. §27-104-13 (1972), the Governor directed the reduction of the DOM's spending authority by \$24 million during FY 2010.

In response to declining state revenues and under the provisions of MISS. CODE ANN. §27-104-13 (1972), the Governor reduced the spending authority of selected state agencies for FY 2010. Governor-directed reductions included a \$19.2 million reduction in DOM's spending authority in December 2009 and another \$4.8 million reduction in DOM's spending authority in January 2010. In response to a projected cash shortfall in March 2010, the Governor directed further DOM budget reductions and provider cuts (see page 23).

DOM's administrative areas of contractual services and commodities were reduced \$4.4 million and the Subsidies, Loans, and Grants category, which includes provider payments, was reduced \$19.6 million. PEER notes that the budget reductions reduced DOM's total funds available for FY 2010 and although the reductions might not have an immediate impact, such as immediately reducing provider payments, such reductions would have an effect prior to the end of the fiscal year. The Governor-directed budget cuts serve as an example of an unforeseen occurrence that negatively impacted DOM's budget.

Legislatively Directed Budget Reduction

Senate Bill 2495, 2010 Regular Session, transferred funds from selected state agencies and funds, including \$14 million from DOM, to the state's Budget Contingency Fund and further appropriated the funds to other state agencies such as the departments of Education and Corrections.

Senate Bill 2495, 2010 Regular Session, directed funds from selected state agencies and funds, including \$14 million from DOM, to the state's Budget Contingency Fund. The bill further directed these funds to other state agencies such as the Department of Education, Department of Corrections, and the Department of Finance and Administration's Property Insurance Fund. The Governor signed the bill on March 11, 2010. Senate Bill 2495 serves as an example of an unforeseen occurrence that negatively impacted DOM's budget.

The Division of Medicaid's Cash Flow Projection and Proposed Actions

DOM's Cash Flow Projection Process

The Division of Medicaid's process to project cash flow is based on reasonable methodology and estimates, given available information. On March 29, 2010, the DOM projected a FY 2010 cash flow shortfall of approximately \$14.3 million.

DOM's Utilization of Cash Flow Projections

The DOM's cash flow projections determine the total amount of state funds available to the division and estimate, based on current information, the fiscal year-ending cash surplus or deficit.

The process developed by the Division of Medicaid to project cash flow calculates the projected cash surplus or deficit at the end of the fiscal year. The process determines the total amount of state funds available and estimates, based on current information, the fiscal year-ending cash surplus or deficit.

PEER cautions the reader that Medicaid is a complex program encompassing a broad range of medical services. Expenditures for medical services are highly volatile and in most cases cannot be controlled by DOM. Further, expenditures are components of the number of Medicaid recipients, provider rates, recipients' utilization of services, and state and federal legislation. Therefore, increases or decreases in the number of recipients and changes in the utilization of services may result in additional shortfalls or actual expenditures of less than current projections.

Further, due to the daily changes in the number of recipients and the mix of the utilization of services, projections may vary greatly over a short period. Therefore, a projected surplus or deficit should not be taken as the absolute, final result of a fiscal year, but rather such projections should be considered when contemplating what actions, if any, may be necessary regarding the Medicaid program.

DOM's March 29, 2010, Cash Flow Projection

As of March 29, 2010, DOM projected a cash shortfall of \$14.3 million for Fiscal Year 2010 based on projections and estimates at that time. PEER believes that the projected shortfall was determined through a process containing reasonable methodology and estimates.

As noted in Exhibit 1, below, DOM projected a cash shortfall of \$14.3 million for the year ending FY 2010 based on methodology that PEER believes to be sound and reasonable given information and estimates available on March 29, 2010. The exhibit shows the amount of funds and expenditures anticipated for the remainder of FY 2010.

Exhibit 1: The Division of Medicaid's Projected FY 2010 Cash Shortfall as of March 29, 2010

Estimated Funds Available	
Total cash available as of March 29, 2010	\$ 40,459,349
Estimated other funding sources through June 30, 2010	121,021,038
<i>Estimated total funds available</i>	\$161,480,387
Estimated Expenditures	
Estimated medical service claims and administrative expenses through June 30, 2010	\$153,092,563
Estimated other medical service type expenses through June 30, 2010	22,726,608
<i>Estimated total expenditures through June 30, 2010</i>	\$175,819,171
<i>Projected cash shortfall June 30, 2010</i>	<i>(\$14,338,784)</i>

SOURCE: PEER review and compilation of DOM records.

Once again, PEER cautions that the projected \$14.3 million shortfall (as of March 29, 2010) is only an estimate and the projected year ending cash balance will change as variables in the Medicaid program, such as the number of recipients and the mix of the utilization of medical services, change during the remainder of FY 2010. The \$14.3 million estimate should not be considered as the final, absolute year ending cash balance for DOM, but should be considered in assessing potential actions regarding the Medicaid program.

The following sections contain discussions of each component of Exhibit 1.

Components of the Cash Flow Projection

Estimated Funds Available

Total Cash Available as of March 29, 2010: \$40,459,349

Total cash available was a known figure and was calculated as follows:

General funds	\$ 23,530,924
Budget contingency funds	121,856,401
Tobacco funds	7,209,899
Medical care fund	6,416,088
Administrative encumbrances	10,446,037
Funds transferred per SB 2495	(14,000,000)
Repayment of letter of credit to State Treasurer	(115,000,000)
Total cash available	\$40,459,349

- *Budget contingency funds*--MISS. CODE ANN. Section 27-103-301 (1972) creates in the State Treasury a special fund known as the Budget Contingency Fund. The Legislature routinely designates certain funds to be deposited or transferred into the fund to be used during the annual appropriation process.
- *Tobacco funds*--MISS. CODE ANN. Section 43-13-407 (1972) establishes the Health Care Expendable Fund into which transfers are made from the Health Care Trust Fund. The trust fund consists of amounts received by the state as a result of a multi-state tobacco lawsuit that was settled in the late 1990s. The funds may be used by the Legislature in making annual appropriations.
- *Medical care fund*--MISS. CODE ANN. Section 43-13-143 (1972) creates in the State Treasury a special fund known as the Medical Care Fund. The fund is comprised of monies transferred by public or private health care providers, governing bodies of counties, municipalities, individuals, corporations, associations, and any other entities for the purpose of providing health care services. These funds may

be used by the Legislature in making annual appropriations for medical services expenditures.

- *Administrative encumbrances*—These represent funds designated for an identified expenditure. The encumbrances are added back to available funds because, although the funds have been designated for particular expenditures, these expenditures had not been made as of the date of the projection (March 29, 2010) and are included as an expense to be paid before the end of the fiscal year.
- *Repayment of letter of credit to the State Treasurer*--Under MISS. CODE ANN. § 43-13-113 (1972), DOM is granted authority to borrow funds from the State Treasurer's office. Funds borrowed during a fiscal year's quarter must be repaid by the end of the following quarter. The \$115 million represents funds that were borrowed during October, November, and December 2009 and were repaid at the end of March 2010, which was the following quarter. If DOM accessed the letter of credit during the fourth quarter of a fiscal year to resolve a projected shortfall, the loan would not be repaid until the first quarter of the following fiscal year. DOM does not have anticipated revenue to pledge in order to repay the borrowed funds.

DOM provided adequate supporting documentation for each of the figures above. Documentation included fund balances from the DOM's management information system, "screen prints" from DOM's management information system, reports from the Mississippi Management and Reporting System, and payment vouchers. PEER finds DOM's calculations of cash available to be reasonable.

Estimated Other Funding Sources through June 30, 2010:
\$121,021,038

The component "Other Funding Sources" is based on budgeted Medicaid matching funds expected from other state agencies and on assessments to long-term care facilities and hospitals.

Budgeted Medicaid matching funds expected from other state agencies	\$ 29,790,270
Budgeted annual assessment of long-term care facilities	24,230,768
Hospital assessment allowed under House Bill 71, Second Extraordinary Session of 2009	67,000,000
Total estimated other funding sources expected through June 30, 2010	\$121,021,038

- *Medicaid matching funds*--These funds are received from some state agencies, such as the University of Mississippi Medical Center and the Department of Mental Health, which receive Medicaid payments for services provided to Medicaid recipients. These state agencies are appropriated funds from the Legislature to serve as the required state match and these funds are forwarded to DOM by the state agencies.
- *Assessment of long-term care facilities*--As authorized by MISS. CODE ANN. Section 43-13-145 (1972), long-term care facilities were assessed \$90 million for FY 2010. Of that amount, DOM anticipates receiving approximately \$24 million during the remainder of FY 2010.
- *Hospital assessment*--As discussed on page 7, House Bill 71 authorized DOM to collect a \$67 million assessment from hospitals. CMS approved a new DSH/UPL state plan amendment and related calculation model, a condition necessary for assessment, in March 2010 and DOM anticipates collecting the assessment prior to the end of the fiscal year.

DOM provided adequate supporting documentation in the form of budget figures and House Bill 71 for the information presented above. PEER finds DOM's estimates and calculations to be reasonable given current information.

Estimated Expenditures

Estimated Medical Service Claims and Administrative Expenses:
\$153,092,563

- *Medical service claims*--This amount is an estimate based on the state's matching rate applied to the average weekly amount of claims for the fiscal year to date. Medical service claims were supported by a detailed breakdown of fiscal year-to-date medical expenditures.

Estimated medical service claims for the remainder of FY 2010	\$131,112,841
State's share of remaining available balance of administrative expenses	21,979,722
Total estimated medical service claims and administrative expenses	\$153,092,563

Medical services represent the largest expenditure category for Medicaid and as noted on page 5, fluctuate due to factors such as the number of recipients, health service utilization, and payment rates. The March 29, 2010, medical service expenditures estimate for April, May, and June 2010 is based on the medical services historical experience for July 2009 through February 2010, which is 8.6% higher than the same period during FY 2009.

DOM added a 1.75% increase to the FY 2010 historical experience of 8.6% in calculating the projected expenditures for the remainder of FY 2010. When developing the FY 2011 budget, DOM updated the originally budgeted FY 2010 increase of 7.8% to a growth rate of 12.09%, due to changes in the economy, growing recipient rolls, and anticipated increases in expenditures. In projecting cash needs for the remainder of FY 2010, DOM took half the difference between the adjusted FY 2010 growth (12.09%) and historical growth from July 2009 through February 2010 (8.6%) to arrive at 1.75% as shown: $(12.09\% - 8.6\%)/2 = 1.75\%$.

The additional percentage above FY 2010 historical experience increases the proposed shortfall by approximately \$2.3 million and increases annualized state expenditures by approximately 0.4% to approximately 9% for FY 2010. DOM strongly believes that the additional increase is

justified due to gradually increasing expenditures and projected continued increases in the number of recipients due to the high unemployment rate.

Although PEER does not disagree with the concept of increasing historical fiscal year-to-date experience to address an anticipated growth rate higher than the historical experience, such additions should be based on sound methodology. PEER believes the precision of calculating future growth could be improved by using a forecasting methodology that analyzes changes in expenditures from one month to the following month for a twelve- to eighteen-month window.

- *Administrative expenses*--This amount is based on the average state match rate applied to the remaining available balance of administrative expenses. Administrative expenses represent the remaining balances available for FY 2010 for payroll, travel, contractual services, commodities, and equipment.

DOM estimated that the state's share of remaining FY 2010 administrative expenditures for payroll, travel, contractual services, commodities, encumbrances, and equipment was approximately \$52 million. DOM used a weighted average in calculating the state match rate of 41.97% to calculate the state's share of approximately \$22 million.

DOM provided adequate documentation to support the medical service claim and administrative expense amounts above. PEER finds DOM's overall estimate and calculations for medical service claims and administrative expenditures to be reasonable given current information.

Estimated Other Medical Service Type Expenditures through June 30, 2010: \$22,726,608

Estimated other medical service type expenditures include clawback payments for Medicare Part D, premium payments for Medicare Parts A and B, CHIP premiums, and non-emergency transportation.

Clawback payments for Medicare Part D	\$ 3,492,030
Payments for Medicare Parts A and B	10,486,608
CHIP premiums	7,447,614
Non-emergency transportation program	1,300,356
Total estimated other medical service type expenditures through June 30, 2010	\$22,726,608

- *Clawback payments*--As noted on page 7, clawback payments are those payments that states make to the federal government as required by the Medicare Prescription Drug Improvement and Modernization Act of 2003. The clawback payments offset some of the additional expenses incurred under Medicare Part D of assuming drug costs for persons eligible for Medicare and Medicaid.

One clawback payment for Medicare Part D is scheduled for the remainder of FY 2010. DOM estimates that increased FMAP for Medicare Part D payments (see discussion on page 6) will satisfy required clawback payments for the remainder of FY 2010.

- *Payments for Medicare Parts A and B*--This amount represents premium payments for Medicaid recipients that qualify for Medicare Parts A and B. Payments for Medicare Parts A and B are based on the state's share of fiscal year-to-date payments.
- *CHIP premiums*--This amount represents total premiums for the state's Children's Health Insurance Program. DOM estimated payments for CHIP by finding the average monthly payment for July 2009 through December 2009 and then dividing that average by six, which is \$2,482,538.
- *Non-emergency transportation*--This amount refers to payments made to the vendor that manages DOM's non-emergency transportation program for Medicaid recipients. DOM estimated payments for the non-emergency transportation program by finding the average monthly payment for July 2009

through December 2009 and then dividing that average by six, which is \$433,452.

DOM provided adequate supporting documentation in the form of payment records and supporting calculations for the items presented above.

Issues Regarding DOM's Cash Flow Projections

PEER believes that overall, the Division of Medicaid's method of estimating cash flow projections is sound and reasonable. However, PEER believes a more rigorous approach is needed for estimating expenditure increases for the remaining months of any given fiscal year. Also, the division does not perform projections on a predetermined schedule or on the same day of each month.

Possible Modifications Needed in the Projection Process

Although PEER believes DOM's overall cash flow projection process to be sound and reasonable, slight modifications could improve accuracy of the process.

As noted throughout this report, PEER believes DOM's method for estimating cash flow projections is sound and reasonable overall, given available information, estimates, and projections. However, PEER notes that components of the DOM's cash flow projections could be improved by slight modification.

Although DOM used historical experience to determine the FY 2010 year-to-date expenditure increase of 8.6%, DOM did not use historical experience to arrive at the 1.75% add-on. Also, in determining the FY 2010 year-to-date expenditure increase of 8.6%, DOM used expenditure amounts for only two points in time: July 2009 and February 2010.

PEER believes a more rigorous approach is needed when estimating expenditure increases for the remaining months of any given fiscal year. PEER endorses the use of historical experience to estimate future expenditure increases. However, PEER believes that more points in time must be used to determine a more accurate estimate. PEER suggests the use of a methodology that analyzes changes in expenditures from one month to the following month for a twelve- to eighteen-month window.

Multiple forecasting methodologies are available to make such estimates. PEER's staff would be available to assist DOM's staff in designing a more rigorous methodology.

Timeline of the Projection and Notification Process

From August 2009 through March 2010, the DOM performed a cash flow projection during each month. However, the projections were not performed on a predetermined schedule or on the same day of each month so that DOM staff and appropriate legislative chairs could be kept apprised of the cash flow situation on a regular basis.

DOM's earliest cash flow projection for FY 2010 was estimated in August 2009, with additional cash flow projections prepared at irregular intervals between August 2009 and March 2010. The first projected cash flow shortfall in excess of \$1 million was prepared January 18, 2010.

DOM prepared estimated cash flow projections at irregular intervals during FY 2010. According to DOM staff, the division prepares such projections if requested by the division's Executive Director or by the Governor's office.

As noted on page 5, contingency items, such as awaiting CMS approval of the DSH/UPL state plan amendment and related calculation model, can have dramatic effects on the projected cash balance. Therefore, although DOM's projections may estimate a cash balance associated with expenditures and funding relating to medical services, contingency items may have a dramatic effect on the projected cash balance and if the contingency is not resolved in a manner favorable to DOM, could create a significant cash shortfall.

For example, the earliest FY 2010 cash flow projection was prepared August 17, 2009, and estimated a projected cash flow balance of \$3.4 million from DOM operations, but also showed a potential shortfall of \$49.5 million if the \$53 million hospital assessment was not collected (see page 7). (See Exhibit 2, pages 20 and 21, for a history of the Division of Medicaid's cash balance projections for the fiscal year ending June 30, 2010.)

As an illustration of how cash flow projections can vary significantly over a short period, the December 7, 2009, cash flow projection estimated a fiscal year ending cash balance of \$2.5 million, not considering contingency items. The January 18, 2010, cash flow projection estimated a fiscal year ending shortfall of \$4.5 million, not considering contingency items. This represents a \$7 million change in six weeks.

Given the importance of the Medicaid program to recipients and the funding necessary to maintain the program, it is vital that estimated cash flow projections be prepared at regular intervals and forwarded to appropriate legislative committee chairs.

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Exhibit 2: History of the Division of Medicaid's Cash Balance Projections for the Fiscal Year Ending June 30, 2010

NOTE: The amounts in the graph on page 21 do not include contingency items.

Item*	Date	Projected Cash Balance	Contingency Item(s)	Projected Cash Balance with Contingencies
A	August 17, 2009	\$ 3,407,396	(\$53,000,000) †	(\$49,592,604)
B	August 26, 2009	(\$205,637)	(\$53,000,000) †	(\$53,205,637)
C	August 31, 2009	(\$775,378)	(\$53,000,000) †	(\$53,775,378)
D	September 8, 2009	(\$739,959)	(\$53,000,000) †	(\$53,739,959)
E	September 14, 2009	(\$565,386)	(\$53,000,000) †	(\$53,565,386)
F	September 23, 2009	\$2,214,065	(\$53,000,000) †	(\$50,785,935)
G	September 28, 2009	\$1,400,308	(\$53,000,000) †	(\$51,599,692)
H	October 19, 2009	\$1,836,594	(\$53,000,000) †	(\$51,163,406)
I	October 26, 2009	\$2,263,966	(\$53,000,000) †	(\$50,736,034)
J	November 9, 2009	\$2,490,628	(\$53,000,000) †	(\$50,509,372)
K	November 30, 2009	(\$17,455,048) ✓	(\$53,000,000) †	(\$70,455,048)
L	December 7, 2009	(\$16,684,508) ✓	(\$53,000,000) †	(\$69,684,508)
M	January 18, 2010	(\$4,543,146)	(\$67,007,297) † and Ω	(\$71,550,443)
N	February 8, 2010	(\$22,808,525) Δ	(\$67,007,297) † and Ω	(\$89,815,822)
O	February 22, 2010	(\$661,297)	(\$67,000,000) † and Σ	(\$67,661,297)
P	March 29, 2010	(\$14,338,784)	-	(\$14,338,784)

SOURCE: PEER review of Division of Medicaid records.

* References for corresponding amounts in the graph on page 21.

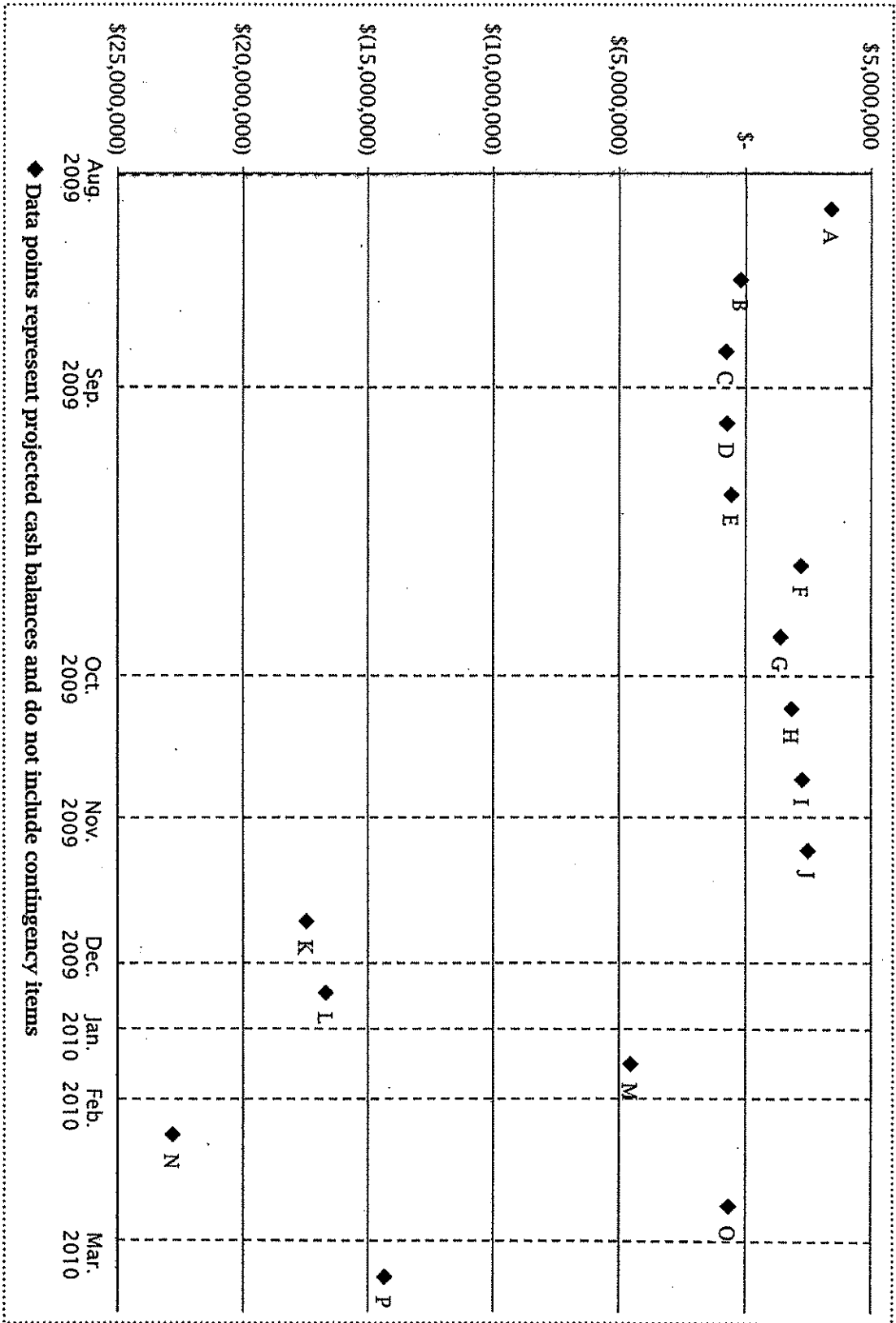
† Contingency of \$53 million due to awaiting Centers for Medicare and Medicaid Services' decision regarding the Division of Medicaid's (DOM) new Disproportionate Share Hospital (DSH)/Upper Payment Limit (UPL) state plan amendment and related calculation model. See page 7.

✓ Includes Governor's announced DOM budget reduction of \$19,202,883.

Ω As noted on the exhibit, this amount is added to contingency †. Contingency item of \$14,007,297 shows effect of reallocation of American Recovery and Reinvestment Act (ARRA) funds. See page 6.

Δ Projected cash shortfall includes \$19 million in unexpected expenditures and reductions related to repayments resulting from an audit of provider payments, an adverse court decision, and additional budget reductions.

Σ Contingency item of \$14 million reflects proposed transfer of funds pursuant to Senate Bill 2495. See page 8.



After projecting an estimated cash flow shortfall of \$4.5 million as of January 18, 2010, DOM did not utilize the authority granted to it under House Bill 71, Second Extraordinary Session of 2009, to fund the projected shortfall.

House Bill 71, Second Extraordinary Session of 2009, states:

Applicable in fiscal year 2010 only, no expenditure reductions or cost containments or increases in assessments recommended by the Executive Director of the Division of Medicaid shall be implemented before February 1, unless the division projects a shortfall so great that the entire Health Care Expendable Fund balance would be reduced to zero.

As of January 18, 2010, DOM projected a \$4.5 million shortfall, exclusive of contingency items. PEER reads House Bill 71, Second Extraordinary Session of 2009, as granting DOM the authority to access the Health Care Expendable Fund to resolve a shortfall that has been projected prior to February 1.

However, under DOM's interpretation of this section of House Bill 71, DOM does not have authority to request and the State Fiscal Officer does not have authority to transfer money from the fund to DOM to resolve the projected shortfall. Therefore, DOM did not take any action to access the Health Care Expendable Fund to address the projected \$4.5 million shortfall.

Although House Bill 71, Second Extraordinary Session of 2009, directs DOM to notify the PEER Committee of expected shortfalls, DOM did not notify PEER following the projected \$4.5 million shortfall from the January 18, 2010, estimate.

House Bill 71, Second Extraordinary Session of 2009, states:

Beginning in fiscal year 2010 and in fiscal years thereafter, when Medicaid expenditures are projected to exceed funds available for any quarter in the fiscal year, the division shall submit the expected shortfall information to the PEER Committee, which shall review the computations of the division and report its findings to the Legislative Budget Office within thirty (30) days of such notification by the division, and not later than January 7 in any year.

Although DOM projected an estimated cash flow shortfall of \$4.5 million as of January 18, 2010, excluding contingency items, the DOM did not notify PEER of an expected cash flow shortfall until March 11, 2010.

DOM officials stated that given the fluidity of the Medicaid program, a \$4.5 million projected shortfall in January does not necessarily mean that the program will end the quarter or the year with a shortfall. Further, DOM was hopeful that CMS would apply the ARRA FMAP benefit to the Medicare Part D clawback payments, which would reduce Medicaid's future expenditures by million of dollars. Finally, DOM was awaiting a decision from certain providers regarding their decision of whether to repay approximately \$3 million that had resulted from an audit by a federal contractor or to appeal the decision. These items, taken together, led DOM to a decision not to notify PEER of the projected \$4.5 million shortfall.

PEER'S notification followed a DOM-estimated cash flow shortfall dated February 22, 2010, of \$660,000, exclusive of contingency items. The shortfall then increased to \$67.7 million after including the contingency items of Senate Bill 2495 (see discussion on page 8) and the \$53 million hospital assessment authorized under House Bill 71 (see discussion on page 7).

As noted previously, under House Bill 71, Second Extraordinary Session of 2009, DOM is required to notify PEER of any expected shortfall, no matter how small. It is doubtful the spirit of the law was to require DOM to notify PEER of insignificant shortfalls (such as \$1) that would require DOM and PEER to utilize staff resources to explain and review fully. Although independent verification of estimated projected cash flow shortfalls is important, such verification should not occur unless the expected shortfall is at a level that the Legislature and DOM officials agree is significant enough to justify verification. This could be accomplished by the division preparing the estimated cash flow projections on a regular basis and reporting the results to the Appropriations Chairs of both houses of the Legislature, who in turn could request verification by PEER of expected shortfalls.

Compliance with the statutory requirement of the Division of Medicaid's notification of PEER of substantial projected cash flow shortfalls would provide legislative decision makers with access to important budgetary information in a more timely manner and would expedite financial decisions that must be made in the legislative process.

How the Division of Medicaid Plans to Address the FY 2010 Shortfall

DOM's proposed actions to address the \$14.3 million shortfall estimated March 29, 2010, are not barred by the provisions of MISS. CODE ANN. §43-13-117 (1972).

To address the projected \$14.3 million shortfall, DOM has proposed reducing payments to Medicaid providers and collecting assessments from hospitals, taking additional administrative reductions, and collecting unpaid

assessments of long-term care facilities in the following approximate amounts:

Reductions to Medicaid providers and hospital assessments	\$9.5 million
Reductions to DOM administration*	\$.2 million
Collection of unpaid assessments from long-term care facilities	\$4.6 million
Total	\$14.3 million

*These reductions would be in addition to a \$4.2 million reduction taken in December 2009. To date, FY 2010 administrative reductions total \$4.4 million.

DOM notes that the proposed reductions are for April, May, and June 2010 and DOM intends to resume payments at regular rates on July 1, 2010. The Division of Medicaid is awaiting CMS's approval of these provider reimbursement reductions.

- *Reductions to Medicaid providers* include reductions in payments to any medical service providers, such as physicians, dentists, pharmacies, and hospitals. Under MISS. CODE ANN. Section 43-13-117 (1972), hospitals are responsible for twenty-five percent of the provider reductions in the form of an additional assessment, which is approximately \$2.37 million of the proposed \$9.5 million in reductions to providers.

Other provider reductions are proposed for dental providers, pharmacy payments, adult day care services, a reduction of case management fees in the Elderly and Disabled Waiver program, and physicians' fees. DOM notes that dental providers received a compounded rate increase of approximately 30% in the last three years, adult day care services received a 27% increase effective FY 2010, and physicians received a 5% increase January 1, 2010.

- *Reductions to administration*--DOM is also proposing a reduction of approximately \$200,000 to its administration areas. This reduction is in addition to the approximately \$4.2 million reduction in administration taken by DOM in December 2009.
- *Collection of long-term care facility assessments*--DOM also plans to collect \$4.6 million from unpaid assessments of long-term care facilities (from FY

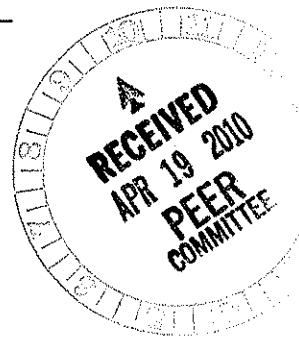
2009). The additional assessments are derived from updated long-term care facilities' revenue information after FY 2009 ended. The updated revenue was higher than anticipated and allowed DOM to collect the additional assessment.

Recommendations

1. The Division of Medicaid should perform its cash flow projections on a predetermined monthly schedule and make this information available, upon request, to the Chairs of the Senate Public Health and Welfare Committee, the House Medicaid Committee, and the House and Senate Appropriations committees, as well as to the Legislative Budget Office.
2. The Division of Medicaid should notify PEER within five business days of any projected shortfall that is significant enough to cause an anticipated reduction in budget authority or that could cause the division to seek additional funding.
3. The Division of Medicaid should modify its process for estimating expenditure increases for the remaining months of a fiscal year by including the use of twelve to eighteen months of historical experience.
4. The Chairs of the Senate Public Health and Welfare Committee, the House Medicaid Committee, and the House and Senate Appropriations committees should discuss with the Division of Medicaid the provisions of H. B. 71, Second Extraordinary Session of 2009, regarding the division's accessing of the Health Care Trust Fund. The discussion should include a determination of whether additional legislative action is needed to clarify the provision.

Agency Response

PEER Note: Some of the issues noted by the Division of Medicaid in its response have been addressed in the final version of the PEER report.



STATE OF MISSISSIPPI
OFFICE OF THE GOVERNOR
DIVISION OF MEDICAID
DR. ROBERT L. ROBINSON
EXECUTIVE DIRECTOR

VIA HAND DELIVERY

April 19, 2010

Max K. Arinder, Ph.D.
Executive Director
Joint Committee on Performance Evaluation and Expenditure Review
PEER Committee
501 North West Street, Suite 301-A
Jackson, Mississippi 39201

Re: *An Analysis of the Division of Medicaid's Projected Fiscal Year 2010 Cash Shortfall, as of March 29, 2010*

Dear Dr. Arinder:

I am in receipt of your Confidential Draft regarding the above referenced matter. We appreciate PEER's cooperation and professional courtesies extended to the Division of Medicaid during this review. We offer the following comments in response to your draft.

In response to PEER's recommendations:

1. The Division agrees that a cash flow projection done on a predetermined monthly schedule is advantageous. As commented by PEER throughout the report, the complexity and size of the Medicaid program make the accurate projection of funds required an ongoing endeavor in which surpluses or shortfalls can change by millions of dollars over a period of days.
2. The Division can certainly notify PEER within five business days of any significant projected shortfall. We would like to point out that the Governor's budget cuts to the Medicaid program were publicly announced, as well as, his statement to the Medicaid providers that in making the cuts he anticipated \$24 million in cuts to their payments. If additional federal dollars had not been provided, the shortfall announced in March would have been the \$24 million.
3. The Division of Medicaid has monthly reports that compare each month to the same month of the prior year and year-to-date expenditures compared to that of the previous

year. We also maintain reports that show fluctuations from month to month in both medical service expenditures and enrollment. We can develop a report that includes an additional six months. The Division welcomes any assistance from PEER in developing reports that will improve our projection process. We must stress, however, that simply looking at historical numbers does not provide the entire picture due to fluctuations created by various variables (e.g., claims reprocessing, third party recoveries, changes in CHIP premium rates, etc.). Any projections made by DOM during FY2010 based upon historical expenditures would not have anticipated the budget cuts imposed upon the program due to the economic slowdown nor the increase in outpatient expenditures brought upon the program by HB 71.

4. DOM welcomes any clarifications to HB 71, but contends that in its current form the law requires DOM to make expenditure reductions up to \$24 million in state share expenditures for FY 2010, but not until after February 1, 2010, unless the deficit is so large that it cannot be reconciled by the balance of the Health Care Expendable Fund. The law limits DOM to \$24 million in state share expenditure reductions to providers for FY 2010. If DOM must enact more savings to reconcile its budget, then the HCEF is tapped for the remainder of DOM's deficit.

Other comments:

1. Page 7-8 - A correction is recommended to this section to indicate that the assessment of the tax was dependent on the approval of the state plan amendment for the DSH/UPL methodology. CMS approval of the assessment was not required. And please note that "million" was inadvertently omitted from the "\$53" figure in the first sentence of the first paragraph.

Suggested language:

After eight months of uncertainty, DOM received notice that removed the condition delaying a \$53 million assessment to hospitals in March 2010. House Bill (HB) 71 of the Second Extraordinary Session, 2009, authorized the DOM to collect an assessment from hospitals on each non-Medicare hospital inpatient day for FY 2010 through FY 2012. The amount of the assessment is dependent on the level of the state's matching fund percentage for the Medicaid program. For FY 2010, the assessment is \$67 million. Of this amount, \$53 million was contingent on a new Disproportionate Share Hospital (DSH)/Upper Payment Limit (UPL) state plan amendment and related calculation model being approved by CMS.

Since the collection of this assessment was contingent upon state plan amendment approval by CMS, the collection of this \$53 million assessment was uncertain from as early as July 2009 until finally receiving approval from CMS in late March 2010. Prior to the CMS approval, DOM showed this assessment as an uncertainty that could reduce any surplus or increase any shortfall. This item serves as an example of an event that could have had a very negative impact on DOM's budget and remained an uncertainty for a lengthy period.

2. Page 11 - Enter the page number for exhibit 1.
3. Page 13, as amended - 2nd bullet – change “quart” to “quarter”.
4. Page 14 - second bullet, Assessment of nursing homes
 - A. This assessment is not part of the Medicaid state plan. It is authorized by state law, however, in Section 43-13-145, paragraphs (1), (2) and (3).
 - B. The collections are from all long-term care facilities, including nursing facilities, ICFs-MR and PRTF’s. It is more appropriate to label the 2nd line in the table and the 2nd bullet as “Assessment of long-term care facilities”.
5. Page 14, third bullet, Hospital Assessment. Technically, CMS did not approve the assessment. Approval was received from CMS in March 2010 and, as required by HB 71, cleared the condition for assessment.
6. Page 15, second paragraph – When developing the FY2011 budget, DOM adjusted - please use “updated” in place of adjusted. DOM does believe that an additional 1.75% growth (or approximately \$2.3 million) is justifiable. HB 71 restored the 5% reduction in physician payments effective January 1, 2010. CMS has not approved the state Plan Amendment for this change, but when it is approved, an estimated \$1..8 million in state funds will be needed for claims reprocessing.

Suggested language:

DOM added a 1.75% increase to the FY 2010 historical experience of 8.6% in calculating the projected expenditures for the remainder of FY 2010. When developing the FY 2011 budget, DOM updated the originally budgeted FY2010 increase of 7.8% to a growth rate of 12.09%. DOM believed the increased growth rate was supported by the anticipated effect of the recession on increasing Medicaid recipients and legislated program changes, such as higher payment for outlying outpatient clinics associated with hospitals, a five percent increase in physician rates and a ten percent increase in dental rates.

7. Page 15 last paragraph into page 16 –

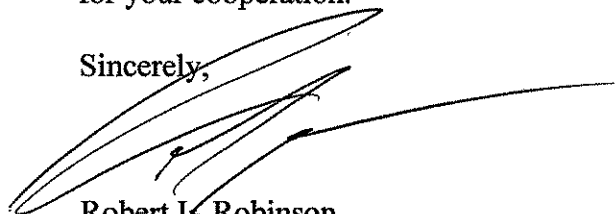
Please replace the second sentence – DOM strongly believes that the additional increase is justified due to the gradually increasing expenditures and projected

continued increases in recipients due to the increasing unemployment rates. The increase also reflects anticipation of payment of the physician increase, all of which is expected in the fourth quarter. Information updates since February 22, 2010 reflect that the increase in medical service expenditures has reached 9% over FY 2009 spending levels.

8. Page 16 – top line. Increasing recipient roles and projected continued increases in recipients appears to be redundant.

Please contact me for any additional information that you may require. Thank you again for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Robinson", with a long horizontal flourish extending to the right.

Robert L. Robinson
Executive Director

PEER Committee Staff

Max Arinder, Executive Director
James Barber, Deputy Director
Ted Booth, General Counsel

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