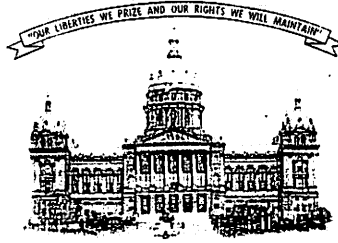


DENNIS C. PROUTY
DIRECTOR
515/281-5279
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STATE CAPITOL
DES MOINES, IOWA
50319

STATE OF IOWA
LEGISLATIVE FISCAL BUREAU

MEMORANDUM

TO: Legislative Fiscal Committee
FROM: Sam Leto
DATE: August 23, 2001
RE: Iowa's Senior Living Trust Fund

We invited a federal representative from the Health Care Financing Administration Regional Office in Kansas City to speak before this Committee regarding the federal funding which is received into the Senior Living Trust Fund. We requested that the representative speak to federal guidelines relating to a States use of the funds and what federal monitoring or auditing is done. They were reluctant to send a representative to the meeting since the federal role is not to direct how states use the funds. As an alternative we requested a written statement which would incorporate the items discussed above. The federal response is in the attached letter.

The letter provides background on Iowa's State Medicaid Plan amendment that created a proportionate share pool based upon the differential between the Medicaid payment rate and the Medicare upper payment limit for nursing facilities. It goes on to highlight the revisions made to the upper payment limit federal regulations earlier this year that will phase out States receipt of this funding.

If you have any questions, do not hesitate to contact me at (515) 281-6764.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare and
Medicaid Services

Refer to:
MB:MB
ADM-52IA

AUG 16 2001

Region VII
Federal Office Building
601 East 12th Street
Kansas City, Missouri 64106

Sam Leto
Legislative Fiscal Committee
Iowa Legislature Fiscal Bureau
State Capitol Building, Second Floor
Des Moines, Iowa 50319

Dear Mr. Leto:

This is in response to your telephone conversation with James Scott on August 7, 2001 requesting information concerning the federal funds applicable to Iowa's State Plan amendment (SPA) 99-37. This SPA was received in the Kansas City Regional Office on December 29, 1999 with an effective date of October 1, 1999. In accordance with section 1915(f)(2) of the Social Security Act, this SPA was deemed granted June 30, 2000.

This SPA added a provision to Section 4.19D of the State Plan by creating a proportionate share pool to be dispersed to Iowa's state, city, and county government owned nursing facilities. The pool is calculated by multiplying the difference between the Medicare upper payment limit (UPL) and current payment rate by the Title XIX days for each nursing facility. The aggregate pool dollars (derived from all nursing facilities) is dispersed to just government operated facilities.

Prior regulations at 42 CFR 447.272 limited Medicaid payment for nursing facility services on an aggregate basis. Under this regulation, aggregate payments may not exceed a reasonable estimate of what would have been paid under Medicare payment principles for like services. This limit applies to services rendered in all providers (public and private) as well as to state operated facilities.

Iowa submitted the methodology used to calculate the UPL, the current payment rate for each facility and the applicable XIX days, and the resulting contribution to the pool by each facility. Also, data was submitted listing the government owned facilities receiving the payments and the applicable amount based on their XIX days.

In accordance with the deemed granted SPA 99-37, the state paid the government nursing facilities \$151,635,477 during the quarter ending September 30, 2000. The FFP (\$95,621,332) was claimed on the fourth quarter FFY 2000 HCFA-64 expenditure report. The state has budgeted \$99,000,000 (FFP) and \$112,972,000 (FFP) respectively for the FFYs 2001 and 2002 as reported on the HCFA-37 budget report.

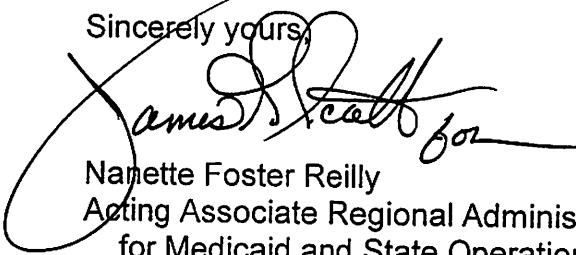
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The Revision to UPL Requirements final rule (enclosed) was published January 12, 2001, with an effective date of March 13, 2001, as stated in the State Medicaid Director letter (enclosed) dated March 13, 2001. 42 CFR 447.272 was revised to separate the UPL calculations into three categories. The three categories are State government-owned or operated facilities, Non-State government-owned or operated facilities, and Privately-owned and operated facilities. The prior UPL requirement did not require the separation of the Non-State government-owned facilities or operated facilities from Privately-owned and operated facilities. The revised rule contained a transition period to the new UPL. Since Iowa's SPA was deemed granted with an effective date on or after October 1, 1999, payments may exceed the UPL until September 30, 2002. Also, 42 CFR 447.272(e)(2) provides that excessive payments shall not be increased during the transition period. Therefore, payments in accordance with the state plan and 42 CFR 272(e)(2) may be made in FFY 2001 and 2002. Iowa is required to submit a state plan amendment no later than December 31, 2002, with an effective date of October 1, 2002. This amendment is required to comply with regulations at 42 CFR 447.272.

CMS current policy is that states must make an expenditure in order for FFP to be available. Once a Medicaid payment is made to a medical provider, the funding is then available to that provider to use as the provider sees fit. In accordance with 42 CFR 430.32/33 these expenditures are subject to review or audit.

If you should have any questions about this matter, please contact James Scott at (816) 426-6466.

Sincerely yours,



Nanette Foster Reilly
Acting Associate Regional Administrator
for Medicaid and State Operations