ISSUE REVIEW

Iowa Legislative Services Agency
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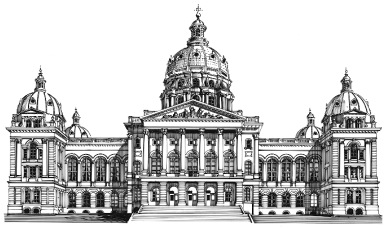

State Capitol
Des Moines, IA 50319
February 20, 2004

Medicaid Intergovernmental Transfers

ISSUE

The Iowa Medical Assistance (Medicaid) Program is dependent upon a financing mechanism called Intergovernmental Transfers (IGTs) that leverage approximately $67.7 million in federal revenue. This federal revenue directly offsets State General Fund expenditures for the Medicaid Program. Recent actions at the federal level suggest IGTs may no longer be available as a financing strategy in FY 2005 or FY 2006. This ***Issue Review*** provides an overview of Iowa's IGTs and recent federal actions.

AFFECTED AGENCIES

Department of Human Services
University of Iowa Hospitals and Clinics
Iowa Hospitals
Iowa Nursing Facilities

CODE AUTHORITY

Chapter 249H, Code of Iowa
Chapter 249I, Code of Iowa
Chapter 182, Section 10, 2003 Iowa Acts

BACKGROUND

Intergovernmental Transfers (IGTs) are a financing mechanism in the Medical Assistance (Medicaid) Program that allow the State to draw additional federal revenue. Many states utilize IGT payment structures, including Iowa. Intergovernmental Transfers have been a topic of active discussion at the federal level for the past year. The federal General Accounting Office (GAO), the Centers for Medicare and Medicaid Services (CMS), the Bush Administration, and members of Congress have expressed opposition to IGTs. Of particular concern are IGTs that allow states to draw increased federal funds that purely benefit the State's finances without providing providers with a net increase in funds. There are several variations of how IGTs work, but the component they share is a revenue transfer from one

governmental entity to another (i.e. the University of Iowa and the State Medicaid Program). For further information, see **Attachment A**.

CURRENT SITUATION

The State of Iowa will receive an estimated $67.7 million in federal revenue during FY 2005 through IGTs. This includes:

- $29.0 million through the Hospital Trust Fund.
- $7.4 million through the Senior Living Trust Fund.
- $18.1 million through Supplemental Indirect Medical Education.
- $13.2 million through Supplemental Disproportionate Share Hospitals.

This $67.7 million in federal funds is over and above the normal federal matching rate for Medicaid and is relatively consistent from year to year. The established matching rate is 63.64% for Federal Fiscal Year 2005. The $67.7 million is built into the base Medicaid budget estimates for FY 2005.

These IGTs have received federal approval and have been in place for several years. As mentioned above, many states use IGT funding mechanisms similar to Iowa's. If the federal government were to disallow the federal payments for these IGTs, the State would need to find an alternative funding source to replace the $67.7 million, or reduce program expenditures.

RECENT FEDERAL ACTIONS

Recent action at the federal level is cause for concern that IGTs as a funding mechanism for Medicaid may be at risk in the near future. A summary of recent activity follows:

- In June 2003, Congressman Billy Tauzin of Louisiana, sent a letter to all states requesting information on a number of Medicaid financing strategies, including IGTs, and expressed disapproval for these strategies.
- The federal GAO placed the Medicaid Program on the 2003 list of programs at high risk for fraud, waste, abuse, and mismanagement, stating, "States have used various financing schemes to generate excessive federal Medicaid matching funds while their own share of expenditures has remained unchanged or decreased." The GAO specifically recommended that Congress curb state financing schemes, such as IGTs.
- The past and present directors of the CMS have repeatedly expressed opposition to IGTs and have implemented strategies at the CMS intended to identify IGTs and provide a mechanism for the CMS to reduce federal funding associated with IGTs.
- In July 2003, the CMS began requiring states to respond to "Five Questions" when submitting any new State Plan Amendments. The questions are targeted at identifying IGTs within proposed Plan Amendments, as well as existing IGTs.
- During the summer of 2003 several states, including Iowa, proposed State Plan Amendments to implement new IGT strategies to the CMS. Following the new Five Questions requirement, the CMS denied the new IGT proposals. The proposals were similar to IGTs approved by the CMS in the past.

- President Bush's FY 2005 Federal Budget Proposal contains several initiatives targeted at existing IGTs. The budget includes $1.5 billion in federal budget savings resulting from the elimination of state IGTs. The items below are excerpts taken from the National Conference of State Legislatures (NCSL) "Highlights of the Health Provisions: Bush Administration FY 2005 Budget Proposal":

  - The Administration proposes to curb Intergovernmental Transfers that are "in place solely to undermine the federal matching rate determined by federal statute." In addition, the Administration proposes to "cap" Medicaid payments to individual state and local government providers at the cost of providing services to Medicaid beneficiaries. *(Saves the federal government $1.5 billion in FY 2005; $9.6 billion over five years).* (NCSL, 2004)

  - The Administration proposes to strengthen federal oversight of states' financial practices related to the administration of the Medicaid and State Children's Health Insurance Program (SCHIP). This effort includes increasing the number of audits and evaluations of state programs. The Administration has proposed to set aside $10.0 million for this stepped-up oversight effort.

- On January 7, 2004, the CMS released new draft regulations describing how federal matching funds would be distributed to states. The comment period was only 24 hours. Under the new requirements, states would be required to submit cash drawdown plans prior to the beginning of the fiscal year and cash ceilings would be placed on the amount of federal funds based on the plans. The regulations require all state fund sources for the match be identified. It appears the effort is targeted at identifying IGTs. In addition, these changes fundamentally change the historical relationship between states and the federal government in Medicaid.

  As of February 17, 2004, implementation of these regulations was on hold due to opposition from states. However, the rules will be re-issued in March with a 60-day public comment period.

BUDGET IMPACT

Based on these actions, there is cause for concern that Iowa could lose IGT funding in FY 2005 or FY 2006, although it is difficult to specifically determine how these actions will affect Iowa. The IGTs have served to save State funds over the past decade by reducing State funds needed for the match. To fully fund the match without IGT revenue would require an alternative funding source or program reductions of approximately $67.7 million annually.

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Source: Department of Human Services
"Briefing for Iowa Congressional Delegation Staff"
December 11, 2003

How do Iowa's (IGT's) work?

- University of Iowa Hospital Supplemental Disproportionate Share
- University of Iowa Hospital Supplemental Indirect Medical Education Payment
- Hospital Upper Payment Limit (UPL)
- Nursing Home Upper Payment Limit (UPL)
- University of Iowa Hospital Physicians (pending)

In each case, the State makes a Medicaid payment to a medical facility owned by (or physician group employed by) State government (the University of Iowa Hospital) or county/city governments (Franklin Memorial Hospital and various county or city owned nursing homes). The payment is made with State and federal dollars.

Once received by the facility, it loses its character as a Medicaid payment and becomes University hospital or city/county government revenue. The University and the city/county governments then return the payments made. The State is ahead financially by the federal share of the payment made.

The State then re-invests the federal share in the Medicaid program. i.e., these dollars are used to cover the state share of payments to hospitals, nursing homes, physicians, pharmacies, dentists, home health agencies, hospices, intermediate care facilities for the mentally retarded and developmentally disabled, adult rehabilitation service providers – and so forth.

Note: Iowa's ability - and the ability of every other State - to use these kinds of intergovernmental transfer payments is limited by an array of federal law, rules and regulations – and Iowa complies with all of them.

The most significant rules are those which:

- Limit the total amount of DSH (disproportionate share hospital) program payments that Iowa can receive;
- Limit the amount Iowa can pay state hospitals and county/city hospitals to the amount those hospitals would receive (in the aggregate) under Medicare for the same services;
- Limit the amount Iowa can pay county/city nursing facilities to the amount they would receive under Medicare for the same services; and
- Limit the amount Iowa can pay physicians to their usual and customary charge for any patient who is not covered by Medicaid.

Is the CMS aware of how Iowa's IGTs work?

Yes! Yes! Yes! There is no secret whatsoever about what Iowa is doing.

Do other States use IGT's in the same way?

Yes.