



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #367

### **MA and FoodShare Administrative Contracts (Health Services -- Medical Assistance -- Administration)**

[LFB 2015-17 Budget Summary: Page 228, #3]

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#### **CURRENT LAW**

Funding that supports costs of most contracted services for programs administered by the Division of Health Care Access and Accountability (DHCAA), including medical assistance (MA), and FoodShare, is budgeted in one general purpose revenue (GPR) and one federal (FED) appropriation. These appropriations do not support MA benefits, DHS staff, or allocations to income maintenance consortia or tribes. Base funding for these appropriations total \$149,027,700 (\$48,816,200 GPR and \$100,211,500 FED).

Funding that supports costs of most contracted services for programs administered by the Division of Long-Term Care (DLTC), including Family Care and IRIS (Include, Respect, I Self-Direct), is budgeted in that Division's general program operations appropriations. In 2014-15, DHS projects that it will expend \$17,370,800 (\$5,220,500 GPR, \$11,004,900 FED, and \$1,145,400 PR) to fund these contracts.

The GPR funding that supports these contracts is provided on a sum certain basis -- DHS cannot expend more than the amounts the Legislature budgets in these appropriations. In contrast, the FED funding reflects estimates of federal grants and federal matching funds the state will claim for administrative activities relating to these programs. These estimates may differ significantly from the federal funds that DHS actually receive or expends for these contracts, as different federal matching rates apply to different types of projects.

#### **GOVERNOR**

Provide \$9,454,100 (\$4,703,300 GPR and \$4,750,800 FED) in 2015-16 and \$10,748,000 (\$6,408,200 GPR and \$4,339,800 FED) in 2016-17 to fund the difference between the total estimated cost of contracted services for the administration of the state's MA, FoodShare and

other public assistance programs in each year of the 2015-17 biennium and base funding for these contracts.

## DISCUSSION POINTS

1. The funding change in this item reflects the net effect of numerous changes expected to affect contract costs. This section provides a brief description of the major contracts, and the primary reasons for the funding changes relating to these contracts.

*Fiscal Agent Contract (HP).* The fiscal agent for the MA program, currently HP Enterprise Services, processes provider claims, provides enrollment and customer services, produces summary reports, conducts program integrity functions, and owns and maintains the Medicaid Management Information System (MMIS).

The bill would provide additional funding to support higher costs for a newly-renegotiated five-year contract, including: (a) a higher "flat fee" component of the contract; (b) increased funding to support projects expected to reduce benefits costs and meet federal requirements and other program objectives; (c) inflationary increases incorporated in the contract; and (d) continuation of projects to implement provisions of the federal Affordable Care Act (ACA).

*CARES (Deloitte).* The Client Assistance for Re-employment and Economic Support (CARES) system assists state and county staff in determining applicants' eligibility for MA, SeniorCare, FoodShare, Wisconsin Shares, and TANF/W-2. DHS contracts with Deloitte for programming, analysis and maintenance tasks for CARES.

The bill would provide additional funding to increase the number of budgeted hours of services Deloitte will provide, from approximately 180,000 hours budgeted in 2014-15 under 2013 Act 20, to 234,000 hours in each year of the 2015-17 biennium to support current operations, maintenance and reporting requirements, new projects to meet federal requirements, and to implement state initiated program changes. In 2014-15, DHS expects to purchase approximately 270,600 hours of services from Deloitte, using funding carried over from the 2013-14 contracts appropriations.

The funding increase in the 2015-17 budget bill also reflects a provision in the current contract that increases the hourly rate DHS pays for these services, from \$104 to \$109 per hour, beginning in 2016, and \$115 per hour, beginning in 2017. In addition, it is anticipated that a greater portion of these services will be for maintenance (for which the state receives 75% federal funding), rather than development services (for which the state receives 90% federal funding), resulting in an increase in GPR and a corresponding reduction of FED needed to support the contract.

Minor funding changes are recommended for other CARES-related costs, including hosting and data storage charges DHS pays to the Department of Administration's Division of Enterprise Technology.

*Other Contracts (Various Entities).* DHS contracts with several other entities to provide administrative services to the MA program, including rate-setting for hospitals, actuarial services, assistance in claiming federal funds for MA-eligible school-based medical services and services provided by counties, and consulting services. The bill would make minor funding changes for these contracts.

*Division of Long-Term Care Contracts.* The Division of Long-Term Care funds contracted services such as a share of the state's fiscal agent contract, actuarial services, nursing home rate-setting, quality review, and external advocacy services. The bill would increase funding by \$724,900 (\$674,900 GPR and \$50,000 FED) in 2015-16 and \$1,000,300 (\$1,220,800 GPR and -\$220,500 FED) in 2016-17 to fund these contracts.

Under a separate item, the bill would consolidate funding and positions in the DHCAA and the DLTC to create a new Division of Medicaid Services. Under that item, \$14,409,000 (\$5,895,300 GPR and \$8,513,700 FED) in 2015-16 and \$14,684,500 (\$6,441,300 GPR and \$8,243,200 FED) in 2016-17 would be transferred from DLTC appropriations to the current appropriations that support contracted services in DHCAA to consolidate funding for all MA-related contracts.

2. The following summarizes the total funding that would be budgeted for these contracted services and compares these amounts with the base funding amounts in the two divisions, which is the basis for the funding change in the bill.

**Summary of Governor's Budget Recommendations  
Medical Assistance and FoodShare Administrative Contracts**

	<u>2015-16</u>		<u>2016-17</u>	
	<u>GPR</u>	<u>FED</u>	<u>GPR</u>	<u>FED</u>
<b>Base Funding</b>				
Division of Health Care Access and Accountability	\$48,816,200	\$100,211,500	\$48,816,200	\$100,211,500
Division of Long-Term Care	<u>5,220,500</u>	<u>11,004,900</u>	<u>5,220,500</u>	<u>11,004,900</u>
Total	\$54,036,700	\$111,216,400	\$54,036,700	\$111,216,400
<b>Total Estimated Costs of Contracts</b>				
Division of Health Care Access and Accountability*	\$53,319,500	\$96,680,500	\$54,478,400	\$96,315,200
Division of Long-Term Care	<u>5,895,300</u>	<u>11,055,000</u>	<u>6,441,300</u>	<u>10,784,400</u>
Total	\$59,214,800	\$107,735,500	\$60,919,700	\$107,099,600
<b>Adjustments</b>				
Hospital Assessment Offset to Replace GPR	-\$700,000	\$0	-\$700,000	\$0
<b>Net Budgeted Expenditures</b>	\$58,514,800	\$107,735,500	\$60,219,700	\$107,099,600
Difference Between Base Funding and Net Expenditures	\$4,478,100	-\$3,480,900	\$6,183,000	-\$4,116,800
Funding Increase in Bill	\$4,703,300	\$4,750,800	\$6,408,200	\$4,339,800
<b>Difference (Funding Adjustment -- Alternative 2)</b>	-\$225,200	-\$8,231,700	-\$225,200	-\$8,456,600

\*Excludes \$2,500,000 GPR and \$22,250,000 FED annually for MMIS development, design and implementation.

The table shows that the funding increase that would be provided in the bill exceeds the amounts needed to support the costs the Governor intended to fund by \$225,200 GPR and \$8,231,700 FED in 2015-16 and by \$225,200 GPR and \$8,456,600 FED in 2016-17. The difference reflects: (a) the deletion of funding provided for an evaluation of the FoodShare Employment and Training Program (FSET), for which funding is provided under a separate item in the bill; and (b) a correction to the base federal funding budgeted for these contracts. Consequently, an adjustment could be made to delete the surplus funding from the bill and still fund all of the costs that the Governor recommends be funded (Alternative 2).

DHCAA is currently funding some contracts for MA-related costs from its general program operations appropriations, rather than from its contracts appropriations. These contracts include funding for Deloitte to implement federally required health information technology (HIT) provisions, funding for HP to enable the state to claim federal MA funds to support certain inpatient hospital services for inmates, and a portion of the costs DOA Division of Hearings and Appeals relating to MA cases. Under the bill, \$530,600 GPR and \$2,737,900 FED annually would be budgeted for these contracted services from the Division's general program operations appropriations in the 2015-17 biennium. Funding for these contracts should be transferred to the contracts appropriations, which is incorporated into Alternative 2.

3. As previously indicated, some of the GPR cost increases in this item are due to factors over which the agency has little control, such as provisions in current contracts that provide modest automatic inflationary increases (generally between 1% and 2% per year), and a shift in the types of projects Deloitte would conduct. In addition, several of the IT development projects are either a continuation of projects already initiated by the Department, or are required for DHS to comply and implement state and federal law or policy.

4. The bill does not include funding DHS believes it will incur to fund the design, development and installation of a new Medicaid Management Information System (MMIS). Federal law requires each state's MA program to operate a MMIS to meet certain objectives and standards, including systems mechanization, mechanized claims processing, and information retrieval, and permits a state's contracted fiscal agent (in Wisconsin, HP), to operate the state's MMIS.

The Department's contract with HP, which currently owns the state's MMIS, expires in November, 2018. DHS indicates that a new fiscal agent and MMIS contract will need to be secured three years prior to that date to ensure a successful transition to the new MMIS. In May, 2014, DHS entered into a contract with CSG Government Solutions to provide services relating to the fiscal agent procurement, including recommendation for modifications to the current MMIS.

DHS estimates that the total cost to purchase a new MMIS would range from \$75 to \$100 million, which would be funded over a three -year period. As these costs would be eligible for 90% federal cost-sharing, the estimated GPR costs would be approximately \$7.5 million to \$10 million over this period. However, the costs would be less if DHS selects HP to continue as the state's fiscal agent (and continues to operate the MMIS), as funding would be needed to make improvements to the current system, rather than to purchase a new system with the features recommended by the procurement consultant. Although DHS expected to incur these costs in the 2015-17 biennium, it

did not include funding for these items in its 2015-17 budget submission. As funding for these costs is not included in the Governor's bill, DHS would be required to absorb any costs relating to MMIS changes by reprioritizing funding for the planned contracted services.

Based on a review of supplementary materials DHS submitted to this office regarding these contracts, the funding increases (with the adjustments described in Discussion Point 2) in the Governor's bill appear reasonable, but will require DHS to reprioritize funding to support MMIS-related project costs. Further, the estimates reflect judgements by DHS staff who are directly involved in administering complex programs about what, and how much, contracted services are needed to comply with state and federal law, and to implement changes that may result in reduced MA benefits costs or improve services. For these reason, the Committee could adopt the Governor's funding recommendations (Alternative 1 or 2).

5. However, in light of GPR budget constraints, the Committee may wish to consider several options that would reduce the additional GPR costs for these contracts, as described below and offered as options under Alternative 3.

6. *Fiscal Agent Contract -- Projects to Reduce MA Benefits Costs or Improve Quality.* The bill would provide \$7.2 million (\$2,808,000 GPR and \$4,392,000 FED) annually for HP to work on a number of projects that DHS believes will reduce MA benefits costs or improve program performance. In general, these projects require one-time changes to the MMIS before DHS can implement them. These projects, which are currently in design or implementation stages, include systems changes that will:

(a) Change reimbursement methodology for end state renal disease services so that payments would be based on the type and severity of services provided to ensure compliance with federal policy and generate savings;

(b) Provide reports and data extracts to the University of Wisconsin Pharmacy School as part of the Wisconsin Pharmacy Quality Collaborative (a goal of which is to increase the number of pharmacists who provide medication therapy management (MTM) services to MA enrollees); and permit pharmacists to submit to DHS documentation and outcomes relating to MTM;

(c) Modify the DHS chronic disease payment system to permit DHS to increase federal claims by identifying services managed care organizations provide to individuals eligible for enhanced federal funds under the federal children's health insurance program (CHIP);

(d) Transfer data from the Department of Children and Families to assist in the implementation of the Care4Kids program, the "medical home" for children in foster care.

(e) Implement Pay for Performance for hospital reimbursement, under which DHS withholds 1% of payments to hospitals, which hospitals can "earn" back by meeting performance standards;

(f) Improve reporting of non-emergency medical transportation services provided by the state's transportation broker (currently, Medical Transportation Management); and

- (g) Standardize measures of the total cost of care relating to MA populations.

In addition, this item would fund 2.0 HP employees to work with the DHS Bureau of Fiscal Management to support managed care rate setting initiatives and 2.0 HP employees to work with the Bureau of Benefits Management to improve compliance with managed care contracts.

In 2013-14, DHS expended \$4,147,800 (\$1,371,200 GPR and \$2,776,600 FED) for similar projects HP provided to DHS. However, as DHS expects to expend \$7,262,800 (\$2,985,000 GPR and \$4,277,800 FED) on these types of projects in 2014-15, the \$7.2 million (\$2,808,000 GPR and \$4,392,000 FED) that would be budgeted for these projects in 2015-16 and 2016-17 is comparable to planned spending in the current year. The Committee could reduce funding in the bill for these projects by 10% (Alternative 3A2) or 20% (Alternative 3A3) to more closely budget funding for these types of projects at the 2013-14 level, in which case DHS would be required to reprioritize work on these and other planned projects performed by HP.

7. *Enrollment Broker.* Automated Health Services currently serves as the Department's HMO enrollment broker, which provides outreach, education, and enrollment services to BadgerCare Plus members who enroll in HMOs. These services are provided through a call center in Milwaukee County.

In 2013-14, DHS expended \$2,160,000 (\$1,039,300 GPR and \$1,120,700 FED) for this contract, and expects to expend \$2,340,000 (\$1,170,000 GPR and \$1,170,000 FED) for this contract in 2014-15. The bill would budget \$2,000,000 (\$1,000,000 GPR and \$1,000,000 FED) in 2015-16 and \$2,340,000 (\$1,170,000 GPR and \$1,170,000 FED) in 2016-17 to support this contract. DHS expects some decrease in workload in 2015-16, compared to 2014-15, as indicated in the recommended funding decrease. However, the bill would budget funds for this contract in 2016-17 at the 2014-15 level. The Committee could budget funding for this contract in fiscal year 2016-17 at the same level as 2015-16, resulting in a funding decrease of \$340,000 (-\$170,000 GPR and -\$170,000 FED) in 2016-17 (Alternative 3B2).

8. *CARES (Deloitte) -- Standard Maintenance and Operations.* The bill would provide DHS with funding to purchase 234,000 hours of services in each year from Deloitte. DHS indicates that approximately half of these hours will be for operations, maintenance and reporting activities, while the remainder relate to development projects to enable DHS to meet federal requirements and implement state policy changes.

Examples of current projects include: (a) real time verification of recipients' earned income, using information from the federal data hub; (b) compliance with federal security requirements, such as data encryption, and security information and event monitoring, and disaster recovery; (c) enrollee access to notices through online accounts, as required by CMS; (d) implementation of new work requirements for FoodShare recipients who are able bodied adults without dependents; (e) compliance with language requirements for correspondences with FoodShare recipients; and (f) "real-time" eligibility results for individuals and families who apply for MA.

9. The 2013-15 biennial budget act included funding for DHS to purchase 180,000 hours annually from Deloitte. The Governor's 2015-17 budget would provide funding for 54,000

additional hours per year, a 30% increase in the annual number of hours budgeted in Act 20. However, DHS believes that additional hours in excess of the recommended 234,000 per year are needed to complete all current planned projects. Further, the current contract with Deloitte is based on an assumption that the state will purchase 300,000 hours per year in services. While recognizing that the state is not committed to purchasing this number of hours from Deloitte, Deloitte may request to renegotiate the current rates if the state chooses to purchase fewer hours from that vendor.

10. The Committee could choose to increase the number of contracted hours for Deloitte, compared to the Act 20 budgeted number of hours, by 20%, rather than by 30%, as recommended by the Governor (Alternative 3C2). Under this option, 216,000 hours of contracted work would be budgeted for Deloitte in each year of the 2015-17 biennium, at a cost of \$23,004,000 (all funds) in 2015-16 and \$24,192,000 (all funds) in 2016-17.

**ALTERNATIVES**

1. Approve the Governor's recommendations.

2. Modify the Governor's recommendations by: (a) reducing funding by \$225,200 GPR and \$8,231,700 FED in 2015-16 and by \$225,200 GPR and \$8,456,600 FED in 2016-17 to reflect reestimates of the funding needed to support contracted services recommended by the Governor; and (b) transferring \$530,600 GPR and \$2,737,900 FED annually from the DHCCA general program operations appropriations to the appropriations that fund contracted services to consolidate funding for contracts in these appropriations.

<b>ALT 2</b>	<b>Change to Bill</b>
GPR	- \$250,400
FED	<u>- 16,688,300</u>
Total	- \$17,138,700

3. In addition to Alternatives 1 or 2, adopt one alternative listed under A, B, and C.

**A. Funding for Planned Projects for the Fiscal Agent**

1. Adopt the Governor's recommendations.

2. Reduce funding by \$720,000 (-\$280,800 GPR and -\$439,200 FED) annually to reduce by 10% the amount of funding budgeted for the state's fiscal agent to conduct projects described in Discussion Point 4.

<b>ALT 3A2</b>	<b>Change to Bill</b>
GPR	- \$561,600
FED	<u>- 878,400</u>
Total	- \$1,440,000

3. Reduce funding by \$1,440,000 (-\$561,600 GPR and -\$878,400 FED) annually to reduce by 20% the amount of funding budgeted for the state's fiscal agent to conduct projects described in Discussion Point 4.

<b>ALT 3A3</b>	<b>Change to Bill</b>
GPR	- \$1,123,200
FED	<u>- 1,756,800</u>
Total	- \$2,880,000

**B. Funding for Enrollment Broker**

1. Adopt the Governor's recommendations.
2. Reduce funding by \$340,000 (-\$170,000 GPR and -\$170,000 FED) in 2016-17 to fund the enrollment broker contract in 2016-17 at the same level as 2015-16 (\$2,000,000 per year).

<b>ALT 3B2</b>	<b>Change to Bill</b>
GPR	- \$170,000
FED	<u>- 170,000</u>
Total	- \$340,000

**C. Funding for Contracted Hours for CARES**

1. Adopt the Governor's recommendations.
2. Reduce funding by \$1,917,000 (-\$644,600 GPR, -\$60,800 PR and -\$1,211,600 FED) in 2015-16 and by \$2,016,000 (-\$682,300, -\$60,800 PR and -\$1,272,900 FED) in 2016-17 to fund 216,000 hours of contracted work for CARES modifications per year, a 20% increase from the number of contracted hours budgeted in the 2015-17 biennium (180,000 hours per year), rather than a 30% increase (234,000 hours per year), as recommended by the Governor.

<b>ALT 3C2</b>	<b>Change to Bill</b>
GPR	- \$1,326,900
FED	- 2,484,500
PR	<u>- 121,600</u>
Total	- \$3,933,000

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