



COMMONWEALTH of VIRGINIA
Department of Medical Assistance Services

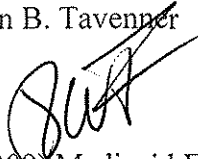
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February 24, 2009

MEMORANDUM

TO: The Honorable Richard D. Brown
The Honorable Marilyn B. Tavenner

FROM: Patrick W. Finnerty 

SUBJECT: December 2008 (FY2009) Medicaid Expenditures

This is the Medicaid Expenditure Report for December 2008. The last Report that DMAS submitted was the June 2008 report, which reported on all of fiscal year 2008. DMAS did not prepare monthly reports for July through November because the staff resources that normally are responsible for these reports were fully occupied with the large volume of work required to develop cost saving proposals needed by the Administration. These cost saving proposals were needed in order to address the serious revenue shortfall being experienced by Virginia.

Like all previous reports, the December report is cumulative and covers fiscal year 2009 to date. Therefore, no new information would be added by going back and preparing separate reports for each month since June.

The attached table presents the December expenditures and year-to-date expenditures in the usual format. It also reports the percent change in expenditures, by line, since last year, and the percent change assumed in the current appropriation and in the introduced budget. There are some significant apparent discrepancies between actual expenditures to-date in FY2009, and the expenditures supported by the current appropriation and the introduced budget. Overall, the year-to-date total Medicaid expenditures are reported to be 13.1% higher than last year's expenditures as of December 2007. This does not appear to compare favorably with a current appropriation that assumes 6.1% growth or a funding level in the Introduced Budget that assumes 6.3% growth. However, there are reasons why these figures make the situation appear somewhat more serious than it is.

In most past expenditure reports much of the narrative has been devoted to explaining why, in specific lines of the budget, the figures are misleading because of a timing anomaly, an unexpected event, an action of the federal government, or some other cause. Usually an attempt has been made to adjust for these things and draw a conclusion about roughly how expenditures are tracking against available funding. In the present instance the factors that cause the data to

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be misleading are known to us, but are more significant than those we have encountered in the past.

Factors that distort our ability to properly interpret the current data include the following.

- Deferral of expenses from 2008 to 2009. The June expenditure report identified \$36.9 million (GF) of expenditures that were incurred in 2008, but had to be deferred into 2009. This amount is included in both the year-to-date expenditures and in the funding from the Introduced Budget (but not in the current appropriation). However, it distorts the percent change figures because the expenditures are, at this point, half-year figures, whereas the funding figures are full year. This results in the expenditure change year-to-date appearing higher than it is.
- Delay of 2009 payments into 2010. The Introduced Budget directs DMAS to delay the last 2009 payment of most providers until early 2010. This means that the funding in the Introduced Budget is, by design, less than a full year's funding. This distorts downward the percent increase of funding over last year in the table because last year's funding figure did reflect a full year of funding.

There are other factors as well, but we believe these are the largest. Although we can quantify these factors and could attempt to adjust the reported data in order to reach a conclusion about how expenditures compare to the appropriation, it is not a simple task. More importantly, it is not the most direct or accurate way to answer the important questions. The better approach is simply to update the DMAS forecast. An updated forecast, (the "February forecast") was provided recently and is a far more reliable statement of the current status of the Medicaid budget than would be any analysis that could be done using the data in the attached table.

cc: Daniel Timberlake, Department of Planning and Budget
Joe Flores, Senate Finance Committee
Susan Massart, House Appropriations Committee
Seta Vandegrift/file

**Department of Medical Assistance Services
Summary Report on Medicaid Expenditures / Recoveries
For State Fiscal Year 2009**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
	Official Forecast	Funding Adjustments	Current Appropriation	December 2008			Year-To-Date			Funded Growth Current Appropriation	Funded Growth Governor's Intro Budget	
				FY 2009	FY 2008	% Change	FY 2009	FY 2008	% Change			
Medicaid	Managed Care	1,354,830,373	(17,935,912)	1,336,894,461	117,039,785	102,356,001	14.3%	683,690,856	598,507,360	14.2%	9.0%	2.3%
	Inpatient Hospital	819,406,082	(28,466,666)	790,939,416	104,653,875	120,329,757	-13.0%	446,439,594	378,602,620	17.9%	13.0%	9.8%
	Outpatient Hospital	110,446,883	0	110,446,883	10,409,063	8,738,515	19.1%	58,277,749	54,348,316	7.2%	1.9%	-0.3%
	Physician Services	133,317,671	(929,036)	132,388,635	11,895,405	12,024,348	-1.1%	79,841,091	75,043,001	6.4%	-16.6%	0.4%
	Pharmacy	171,825,218	(4,579,162)	167,246,056	7,904,628	9,736,768	-18.8%	63,797,682	79,876,470	-20.1%	-7.2%	-5.9%
	Medicare Premiums Part A & B	226,683,481	0	226,683,481	17,971,691	17,264,637	4.1%	105,731,957	100,865,342	4.8%	11.0%	-4.8%
	Medicare Premiums Part D	158,524,780	0	158,524,780	13,336,659	13,193,807	1.1%	79,849,976	78,177,437	2.1%	1.0%	5.4%
	Dental Services	91,721,645	(1,232,374)	90,489,271	7,569,356	5,092,477	48.6%	48,997,881	44,918,208	9.1%	0.7%	5.8%
	Transportation Services	75,183,398	0	75,183,398	6,107,977	5,957,647	2.5%	36,267,679	35,595,895	1.9%	5.9%	-0.9%
	All Other Services	220,766,367	(5,092,176)	215,674,191	19,884,491	15,300,605	30.0%	115,747,061	94,998,496	21.8%	12.0%	22.3%
	Total General Medicaid (45609)	\$3,362,705,898	(\$58,235,326)	\$3,304,470,572	\$316,772,931	\$309,994,563	2.2%	\$1,718,641,525	\$1,540,933,144	11.5%	7.0%	4.3%
	Nursing Facility	768,378,438	(11,486,112)	756,892,326	72,524,553	64,401,205	12.6%	400,129,717	365,907,864	9.4%	4.3%	5.5%
	Home/Community Waiver Services	726,208,596	36,665,975	762,874,571	73,634,328	58,618,340	25.6%	410,074,736	347,378,430	18.0%	5.1%	13.7%
	Other Long-Term Care	62,339,296	(250,000)	62,089,296	5,354,270	4,946,537	8.2%	31,349,823	27,021,833	16.0%	10.3%	9.5%
	Total Long-Term Care (45610)	\$1,556,926,329	\$24,929,863	\$1,581,856,192	\$151,513,151	\$127,966,082	18.4%	\$841,554,276	\$740,308,127	13.7%	4.9%	9.6%
State Plan Option Services				32,463,704	20,997,026	54.6%	156,488,095	112,447,766	39.2%		12.6%	
Mental Illness Services				2,763,491	2,964,538	-6.8%	12,858,256	15,230,596	-15.6%		-14.5%	
MH/MR Case Management				10,194,640	9,085,695	12.2%	55,953,098	53,852,197	3.9%		5.7%	
Total Mental Health (45608)	\$415,958,058	(\$24,018,355)	\$391,939,703	\$45,421,835	\$33,047,259	37.4%	\$225,299,449	\$181,530,559	24.1%	3.9%	9.2%	
Total Medicaid Expenditures	\$5,335,590,285	(\$57,323,818)	\$5,278,266,467	\$513,707,917	\$471,007,905	9.1%	\$2,785,495,250	\$2,462,771,830	13.1%	6.1%	6.3%	
Federal Funding	2,587,855,240	(27,347,229)	2,560,508,011	253,104,501	229,826,930	10.1%	1,357,359,352	1,180,143,483	15.0%	7.0%	7.1%	
State Appropriation (11)	2,747,735,045	(29,976,589)	2,717,758,456	260,603,416	241,180,975	8.1%	1,428,135,898	1,282,628,347	11.3%	5.3%	5.5%	
Mental Health Services-CSA (45608)	0	75,713,945	75,713,945	6,744,614	9,102,342	-25.9%	50,869,671	55,408,802	-8.2%	-28.3%	-28.3%	
MHMR Facility Reimbursements (45607)	203,128,980	0	203,128,980	20,649,615	19,401,003	6.4%	147,352,023	126,989,479	16.0%	-22.9%	-22.9%	
Total Medicaid Program (456)	\$5,538,719,265	\$18,390,127	\$5,557,109,392	\$541,102,146	\$499,511,249	8.3%	\$2,983,716,944	\$2,645,170,111	12.8%	4.0%	4.2%	
Federal Funding (456)	2,689,419,730	15,840,519	2,705,260,249	266,801,616	244,078,604	9.3%	1,456,470,870	1,271,343,372	23.0%	4.6%	4.7%	
State Appropriation (456) (12)	2,849,299,535	2,549,608	2,851,849,143	274,300,530	255,432,645	7.4%	1,527,246,073	1,373,826,739	19.4%	3.5%	3.7%	
Non-Medicaid	FAMIS Expenditures (44602)	\$117,489,589	\$0	\$117,489,589	\$10,159,464	\$7,753,708	31.0%	\$61,216,533	\$47,941,152	27.7%	15.4%	24.8%
	Federal Funding	76,368,233	0	76,368,233	6,563,126	5,047,825	30.0%	39,964,718	31,195,901	28.1%	15.2%	24.5%
	State Appropriation	41,121,356	0	41,121,356	3,596,339	2,705,884	32.9%	21,251,815	16,745,250	26.9%	15.9%	25.3%
	M-SCHIP Expenditures (46601)	\$85,863,515	\$0	\$85,863,515	\$7,370,036	\$6,287,633	17.2%	\$45,103,910	\$35,888,576	25.7%	13.3%	16.9%
	Federal Funding	55,811,285	0	55,811,285	4,669,186	4,087,307	14.2%	29,289,845	23,329,450	25.5%	13.3%	16.9%
State Appropriation	30,052,230	0	30,052,230	2,700,850	2,200,326	22.7%	15,814,065	12,559,126	25.9%	13.3%	17.0%	
TDO Expenditures (32107)	\$10,529,376	\$0	\$10,529,376	\$964,952	\$1,046,529	-7.8%	\$6,800,951	\$4,388,055	55.0%	2.4%	12.8%	
State Appropriation	10,529,376	0	10,529,376	964,952	1,046,529	-7.8%	6,800,951	4,388,055	55.0%	2.4%	12.8%	
VHCF	Prior Year Recoveries/Rev Max	47,287,841	6,684,208	53,972,049	8,278,546	1,372,859	503.0%	17,805,186	13,035,935	36.6%	-4.9%	-16.7%
	Prior Year Pharmacy Rebates	14,146,673	0	14,146,673	0	0	0.0%	0	0	0.0%	15.5%	15.5%
	Total Medicaid Recoveries	\$61,434,514	\$6,684,208	\$68,118,722	\$8,278,546	\$1,372,859	503.0%	\$17,805,186	\$13,035,935	36.6%	-1.3%	-11.0%
	Tobacco Tax Revenue	182,100,000	0	182,100,000	16,690,046	14,350,615	16.3%	95,589,580	92,132,335	3.8%	-1.0%	-1.0%
	MSA Recoveries-Tobacco Agreement	55,072,506	626,230	55,698,736	0	0	0.0%	0	0	0.0%	3.8%	3.8%
Total VA Health Care Trust Fund	\$298,607,020	\$7,310,438	\$305,917,458	\$16,690,046	\$14,350,615	16.3%	\$95,589,580	\$92,132,335	3.8%	28.7%	25.9%	

* Footnotes for this table are indicated at the bottom of Appendix A

**Department of Medical Assistance Services
Appendix A**

Summary of FY 2009 Funding Adjustments to November 2007 Consensus Medicaid Forecast

	<u>Report Expense Categories</u>	<u>Source of Action</u>	<u>Reason for Action</u>	<u>Total</u>	
Medicaid	Managed Care	Chapter 879 Appropriation Act: Item 306 #5 Chapter 879 Appropriation Act: Add 350	Medicaid forecast reduction Medicaid utilization and inflation funding adjustment	(\$19,000,000) \$1,064,088 (\$17,935,912)	
	Inpatient Hospital Services	Chapter 879 Appropriation Act: Item 306 #12c	Reduce inflation for Inpatient Hospital Services included in the Medicaid forecast	(\$28,466,666)	
	Outpatient Hospital Services			\$0	
	Physician Services	Chapter 879 Appropriation Act: Add# 676	Limit Medallion program	(\$929,036)	
	Pharmacy Services	Chapter 879 Appropriation Act: Add# 600 Chapter 879 Appropriation Act: Add# 600 Chapter 879 Appropriation Act: Item 306 #2c FATS # 0053 FATS # 0055 FATS # 0057	Pharmacy savings initiatives Expand PDL Exempt Behavioral Health Drugs from Medicaid PDL Capture rebates on physician-administered drugs Collect pharmacy rebates on institutional drugs Enhance pharmacy management initiatives	(\$2,111,662) (\$2,000,000) \$2,000,000 (\$2,000,000) (\$250,000) (\$217,500) (\$4,579,162)	
	Medicare Premiums Part A & B			\$0	
	Medicare Premiums Part D			\$0	
	Dental Services	FATS # 0030, 0031	First quarter transfer to Administration for Dental PMPM	(\$1,232,374)	
	Transportation Services			\$0	
	All Other Services	Chapter 879 Appropriation Act: Add# 636 Chapter 879 Appropriation Act: Add# 353 FATS # 0009 FATS # 0011 FATS # 0058	Implement Chronic Care Management program PERM savings Increase VHCF Medicaid Recoveries for Merck Settlement Increase revenues for Tobacco Settlement 10% strategic contribution payment Implement claim check edits	(\$3,342,176) (\$1,000,000) \$0 \$0 (\$750,000) (\$5,092,176)	
	Nursing Facility Services	Chapter 879 Appropriation Act: Item 306# 10c	Nursing home rate reductions	(\$11,486,112)	
	Home/Community Waiver Services	Chapter 879 Appropriation Act: Add# 675 Chapter 879 Appropriation Act: Add# 600 Chapter 879 Appropriation Act: Add# 740 Chapter 879 Appropriation Act: Item 306 #7c Chapter 879 Appropriation Act: Item 306 #11c FATS # 0035, 0037	Reflect lower utilization in Alzheimer's Waiver Implement MFP demonstration grant (new waiver services and offsetting savings) MR waiver slots MR waiver slots Congregate Residential rate increase Transfer to Administrative program to administer MFP grant (PAs, FTE)	(\$400,000) \$4,591,480 \$4,593,750 \$18,757,050 \$10,000,000 (\$876,305) \$36,665,975	
	Other Long-Term Care Services	Chapter 879 Appropriation Act: Add# 101	Remove one-time funding for NOVA PACE	(\$250,000) (\$250,000)	
	Mental Health Services	Chapter 879 Appropriation Act: Add# 600 Chapter 879 Appropriation Act: Add# 600 FATS # 0039, 0041 FATS # 0043, 0045	Savings associated with PA and UR of mental health services Implement PRTF demonstration Children's mental health waiver Transfer to Administrative program to administer PRTF grant (PAs, FTE, IT changes) Transfer to Administrative program to administer PA and UR of MH services	(\$11,820,897) (\$5,573,643) (\$539,019) (\$6,084,796) (\$24,018,355)	
	Total Medicaid Expenditure Adjustments				(\$57,323,818)
		CSA transfer of funds: FATS #0017, 0018	To reimburse DMAS for payments made by DMAS for CSA recipients	\$75,713,945	
	Mental Health Services-CSA Transfers				\$75,713,945
	Non-Medicaid	Total FAMIS Expenditure Adjustments			\$0
		Total M-SCHIP Expenditure Adjustments			\$0
		Total TDO Expenditure Adjustments			\$0
	VHCF	Prior Year Recoveries / Revenue Maximization			
		FATS #0010 FATS #0012	Increase VHCF Medicaid Recoveries for Merck Settlement Increase revenues for Tobacco Settlement 10% strategic contribution payment	\$6,684,208 \$626,230	
					\$7,310,438
	Prior Year Pharmacy Rebates				\$0
	Total Medicaid Recoveries Adjustments				\$7,310,438

*** Footnotes for the: Summary Report on Medicaid Expenditures / Recoveries**

- (1) Official Medicaid Consensus Forecast, November 15, 2007. Tobacco Tax and MSA projections are from Department of Taxation.
- (2) Include actions taken during the General Assembly session and administrative FATS transfers. See Appendix A for details.
- (3) Equals Official Forecast(1) plus/minus Funding Adjustments(2). The current appropriation reconciles to Chapter 879 plus/minus all FATS transactions.
- (4) Expenditures for SFY2009 December 2008, per CARS database.
- (5) Expenditures for SFY2008 December 2007, per CARS database.
- (6) Percent increase/(decrease) in monthly expenditures from fiscal year 2008 (5) to fiscal year 2009 (4).
- (7) Expenditures through SFY2009 December 2008, per CARS database.
- (8) Expenditures through SFY2008 December 2007, per CARS database.
- (9) Percent increase/(decrease) in year-to-date expenditures from fiscal year 2008 (8) to fiscal year 2009 (7).
- (10) Percent increase/(decrease) in current funding (3) over total FY 2008 expenditures.
- (11) Includes appropriation and expenditures from the Virginia Health Care Fund.
- (12) Includes appropriation and expenditures from the FAMIS Trust Fund.