

## Discussion Points

### DEPARTMENT OF HEALTH AND SENIOR SERVICES – GENERAL

1. A U.S. Inspector General report (December 2006) noted that New Jersey was unable to spend its allocation of federal bioterrorism funds: During Budget Period 4, 14% of the \$30.7 million in funds were unobligated, while in Budget Period 5, 13.2% of the \$30.5 million in funds were unobligated.

- **Question:** What accounts for the department's difficulty in spending or obligating its federal bioterrorism funds in a timely manner?
- **Answer:** The department's difficulty in spending or obligating these funds resulted from a dramatic increase in New Jersey's award from Budget Period 2 to Budget Period 3 coupled with insufficient administrative capacity to manage the increase. The award increased by over \$23 million from \$1.0 million in Budget Period 2 to \$24.8 million in Budget Period 3.

Because of this sudden influx, the department did not have the administrative infrastructure in place to process the funds. The overwhelming administrative burden that accompanied this increase resulted in large amounts of unobligated funds, which were then added to subsequent budget years through carryforward requests. This was exacerbated by the extended process required for hiring staff supported by these funds. The amounts for Budget Period 4 and Budget Period 5 included in the Inspector General report reflect the actual awards for each year plus carryforward of unobligated funds from prior budget years.

The award for Budget Period 4 was \$26.1 million. The award for Budget Period 5 was \$20.9 million. According to the Inspector General report, which is based on New Jersey's financial status reports, the department obligated \$26.4 million in Budget Period 4 and \$26.5 million in Budget Period 5. When compared to the award amounts without carryforward funds, the department obligated more than the actual award in both Budget Years 4 and 5.

Since the initial increase from Budget Period 2 to Budget Period 3, the Department has substantially improved its administrative processes for preparedness funds as well as increased its administrative capacity. As a result, DHSS has steadily decreased the amount of unobligated funds each year.

A significant challenge in obligating and expending these funds stems from the length of the budget period. The one-year budget period often is insufficient for obligating funds and completing services. Many of the funded activities require the procurement of services, equipment, and supplies that are not on state contract. The state process for procuring these items through public bid frequently spans the majority or all of the budget period, allowing no time for completion of services. The department has taken steps to add some recurring equipment and supplies (e.g. pharmaceuticals) to state contracts.

2. The New Jersey Building Authority is responsible for the construction of a new laboratory for the Department of Health and Senior Services and other State agencies. Available

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information is that the overall costs of the 186,000 sq. ft. facility have increased from about \$139 million to over \$156 million.

- **Question:** What accounts for the increase in construction costs?
- **Answer:** This increase was approved by the New Jersey State Building Authority in order to maintain the existing program (laboratory) requirements, the quality of the building aesthetics and especially the Green Energy provisions involved in including photo voltaic panels as an integral component of this facility.

3. Executive Order No. 39 (2006) established the Commission on Rationalizing Health Care Resources to examine operational and financial matters regarding the State's acute care hospitals.

Various acute care hospitals, or their parent corporations, operate group homes and other residential programs and provide community social services such as mental health case management and job training under contract with State agencies. These activities appear to have little to do with the primary mission of the hospitals, providing acute care. Also, as the discussion on reducing Medicaid reimbursement for partial hospitalization programs provided by hospitals indicated, hospital operated programs have higher operating costs than similar programs operated by non-hospital programs.

- **Question:** Is the commission examining whether hospitals, or their parent corporations, should operate non-acute care services such as group homes, job training, etc.?
- **Answer:** The Commission is assessing not only the financial and operating condition of each acute care hospital in NJ, but also analyzing the programs and services offered by those hospitals. Of ultimate import is whether the state has sufficient services to guarantee access for our population....now and in the foreseeable future. Unnecessary duplication of services within a referral region, and the extent to which that drives costs and inefficiencies, is an issue which the Commission shall be studying. If a hospital's array of services, particularly those not core to its mission, has a detrimental financial impact on the hospital or is inefficient and needlessly costly for payers, clearly that is something the Commission would take into consideration in its deliberations.

4. The FY 2007 appropriations act assumed the following savings: Management Efficiencies - \$50 million; Information Technology Efficiencies - \$20 million; and Procurement Efficiencies - \$15 million. Though savings were reflected in the Interdepartmental Accounts section of the budget, the various department were to provide the monies to reimburse the Interdepartmental Accounts in direct proportion to identified efficiency improvements.

- **Question:** What was the department's share of the Management Efficiencies, Information Technology Efficiencies and Procurement Savings? What specific efficiencies was the department able to achieve? Are these efficiency savings continued in FY 2008?
- **Answer:** The Department's share of Management Efficiencies totaled \$5.1 million in FY 2007 and was continued into FY 2008. The Department has had an internal hiring

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freeze on all positions since July 1, 2005. In early CY 2006 the Department went through a considerable restructuring of staffing which resulted in significant savings throughout the Department. For example, we dropped 2 deputy commissioner positions and the associated staffing that went with them; we have consolidated and eliminated staffing in the Commissioner's Office; and we are consolidating a number of IT staff centrally. We have only backfilled the most critical state funded positions and have only filled federally mandated jobs that require little or no state match. Since the start of the Corzine Administration, the Department, mainly through attrition and retirements, has dropped a total of 118 staff from the payroll.

### HEALTH SERVICES

5. The FY 2007 appropriations act increased funding for Family Planning Services by \$2.0 million, to \$6.9 million. The additional funds would enable "4,500 patients (to receive services), expand hours of operation, and reduce waiting periods for patients scheduling appointments for clinic services."

The FY 2008 recommended budget provides an additional \$0.5 million to "support additional patients, expand hours of operation, and reduce waiting periods for patients scheduling appointments for clinic services" (D-156). Yet available data indicate that fewer women will receive Family Planning Services in FY 2007 than had been anticipated: FY 2007 (initial) - 130,500 and FY 2007 (revised) - 129,000.

- **Question:** What accounts for the reduction in the number of women anticipated to receive family planning services? Are data available to indicate that the number of hours of operation have increased or that the waiting period for services has decreased?
- **Answer:** The revised projection was based on level funding. Based on quarterly reports for SFY 2007, the family planning agencies are on target to reach the goal of serving 4,500 additional clients by June 30, 2007. However, given the \$2 million increase in funding in SFY07, family planning services were increased statewide through expansion of hours of operation and decreased waiting time for appointments. Calendar year (CY) 2005 client total was 126,827 and in CY 2006 it reached 131,756 an increase of 4,929. Based on quarterly reports for SFY 2007, the family planning agencies are on target to reach the goal of serving 4,500 additional clients by June 30, 2007.

6. For several years, a \$500,000 appropriation for Public Awareness Campaign for Black Infant Mortality has been included in the Governor's recommended budget and the annual appropriations act. Between 1993 - 2003, black infant mortality rates decreased by 30.6% compared to a 38.3% reduction in the white infant mortality rate, for which no special funds were appropriated.

- **Question:** What may account for the different rates of reduction in infant mortality rates between whites and blacks during this period? What changes may be needed to improve the effectiveness of the program?

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- **Answer:** Infant mortality has gradually decreased for both black and white infants over the past decade. The rapid decrease in the infant mortality rate since the 1950's has slowed to a leveling of the IMR in recent years.

Declines in infant mortality over the past decade have been linked to improved access to health care, improved management of high-risk pregnancies, reductions in unhealthy behaviors (smoking, drinking), advances in neonatal medicine, and public health education campaigns such as the "Back to Sleep" campaign to reduce SIDS deaths.

The greater percentage decrease in infant mortality for whites than blacks reinforces the need to address racial disparities by providing multidisciplinary culturally sensitive services to all women. The infant mortality rate for black non-Hispanic infants remains three times the IMR for white non-Hispanic infants.

There are many risk factors associated with black infant morbidity and mortality. Although not all black babies born with risk factors will die during the first year of life, minimizing these risks helps improve birth outcomes and child health generally. A competitive Request for Applications was issued in August 2006 for Black Infant Mortality Reduction services and awareness. Seven agencies were selected to provide services in addition to the Black Infant Mortality Reduction and Resource Center. These new programs will be implementing evidence-based, culturally competent strategies to reduce the incidence of preterm, low birth weight and very low birth weight of the black infant. The programs will focus on support services, outreach, community education and awareness and professional education.

7. In FY 2008 recommended budget anticipates \$6.0 million in client co-pays in the Early Childhood Intervention Program. To date, the program has not been able to realize co-pay revenues assumed in the recommended budgets/appropriations acts.

- **Question:** As co-pay revenues have fallen short of the amounts anticipated in the annual appropriations act, is \$6.0 million in co-pays likely to be realized?
- **Answer:** The goal of \$6 million for SFY 2008 can be realized if the revised Family Cost Participation Policies and Procedures are implemented by July 1, or August 1, 2007, at the latest. If the implementation is delayed further, revenue collections would be reduced by approximately \$250,000 per month, since we already collect at the \$3 million level from the former cost share methodology.

The present delay in implementation is a direct result of a NJ Protection & Advocacy, Inc. lawsuit threat that postponed a February 1, 2007 implementation date of revised Family Cost Participation Policies and Procedures to SFY 2008.

8. The FY 2008 budget recommends \$4.5 million for Postpartum programs: \$2.5 million for Postpartum Education Campaign and \$2.0 million for Postpartum Screening, the same as in FY 2007. Available information indicates that only \$250,000 of the overall appropriation has been used for actual treatment services.

- **Question:** How much of the total \$4.5 million FY 2008 appropriation, does the department intend to allocate for Postpartum treatment services?

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- **Answer:** In FY2008, the Department will be shifting the focus from the Postpartum Depression (PPD) awareness and education campaign to supporting increased treatment and support services statewide. In SFY 2008, it is anticipated that \$2 to \$2.5 million will be dedicated to treatment and/or support services. The remaining funding will continue to support public awareness and education and production of varied educational materials required to be distributed under the screening law. With the passage of the PPD legislation, requiring hospitals to screen women on discharge from the maternity unit, FY2007 funds were utilized to educate and assist acute care hospitals and health care practitioners to implement the law. Support services are being developed regionally by the Maternal and Child Health Consortia, these expanded services are designed to complement the education campaign and fill unmet need.

9. The department has awarded \$6.0 million in Stroke Centers grants to 58 hospitals, pursuant to P.L. 2004, c. 136.

An examination of available information indicates the following: (a) 10 hospitals, designated as "primary" stroke centers, were awarded grants of \$50,000 or less; (b) State grants may have supplanted monies hospitals would have spent for stroke related activities; and (c) there was little verification by the department of reports submitted by hospitals with respect to grant expenditures or progress in developing the centers.

- **Question:** How successful has the grant program been in improving treatment of stroke victims in New Jersey? How much of the expenditures by hospitals in this area would have occurred without the program?
- **Answer:** It will be some time before there is any stroke mortality data that will enable an appropriate assessment of whether stroke center designation has improved this indicator. It is not known whether hospitals would have made the investments they did in stroke care absent the legislation. The Legislature appropriated \$3 million in grants to hospitals in each of two fiscal years, with no more than 20 percent of those funds to be allocated to hospitals seeking designation as comprehensive stroke centers. The act also required the Department to designate as many hospitals that applied which is why many grants were \$50,000 or less. It should be noted that there is no appropriation for this activity in the current fiscal year or in the FY 2008 recommendation.

10. Federal funds of \$55.0 million, unchanged from FY 2007 levels, are anticipated for the Comprehensive AIDS Resources Grant. The Ryan White HIV/AIDS Treatment Modernization Act of 2006, Pub.L. 101-381, changed the formula by which funds are distributed and may result in the State and Title I entities receiving less federal funds.

- **Question:** In view of changes in federal law, how certain is it that the State will receive the anticipated \$55.0 million in federal Comprehensive AIDS Resource Grant funds?
- **Answer:** The Department is lowering its total estimate of federal resources from this legislation in anticipation of the reductions that will occur from the changes in federal law. The actual award is estimated to be approximately \$46,000,000. The amount that is presented is the Budget is "federal ceiling" which represents an estimate of what

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federal funds the Department anticipated receiving at the time the federal component of the budget was developed in late November. The "federal ceiling" is necessary in that unlikely event that supplemental federal resources become available, otherwise the Department would not have the legal authority to draw down these potential additional resources.

11. According to the federal Inspector General (March 2007) certain metropolitan areas of New Jersey that receive Ryan White Title I funds have unobligated federal funds available. Specifically, the Bergen-Passaic-Paterson area had \$1.3 million in unobligated funds, and the Hudson County area had over \$0.3 million in unobligated funds.

- **Question:** What oversight role does the department have with respect to the expenditure of Title I funds by eligible metropolitan areas of New Jersey? In awarding State funds, does the State consider the amount of unobligated federal funds the areas may have available?

**Answer:** Unfortunately, the Department has no responsibility whatsoever in the awarding, monitoring or evaluating these funds. It is a major flaw and weakness in the Ryan White Treatment Modernization Act of 2006 that needs to be addressed at the federal level. The funds should come to the state as a formula award to minimize overhead and infrastructure costs and maximize funds going to direct services to clients.

While the Division takes into consideration the availability of other resources in its planning and allocation processes, this specific information is not made available to the Division by the jurisdictions in question or the federal funding source.

Even if the jurisdictions provided the data (as they will now be required in the new law), it would not be available until several months after the closeout of the grant, well after the point in time in which you could use it in making allocation decisions for the upcoming year.

## HEALTH PLANNING AND EVALUATION

12. The FY 2008 recommended budget provides \$0.6 million to implement the Patient Safety Act. Monies appropriated for the program in FY 2006 and FY 2007 (to date) have not been expended.

- **Question:** What is status of the program?
- **Answer:** The \$600,000 is intended to cover the RFP for the patient safety reporting system and the expansion of reporting to other licensed facilities. The RFP was submitted to OIT and is awaiting approval. The patient safety regulations were published in February 2006 and will be finalized within the next 9 months. Expansion to other facilities is based on the implementation of the RFP and the regulations. It is anticipated that all funding in the current fiscal year will be expended.

13. The FY 2007 appropriations act provided \$35.0 million in Hospital Assistance Grants to 22 hospitals and an additional \$8.5 million in supplemental appropriations are anticipated, one to

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a hospital that received a Hospital Assistance Grant and one to a hospital that did not receive a Hospital Assistance Grant. The FY 2008 recommended budget does not provide funds for Hospital Assistance Grants.

- **Question:** Why are supplemental grants required in FY 2007, but no grants are recommended for FY 2008? What purpose did the Hospital Assistance Grants serve in FY 2007 and what will the financial impact be if funding is not provided in FY 2008? What is the Administration's approach to ensuring the financial solvency of the State's acute care hospitals?
- **Answer:** The hospital assistance grants provided for in the FY 2007 budget were added by the legislature prior to passage of the FY 2007 Appropriations Act. In general, the grants were used to offset the unreimbursed cost of providing services. The financial impact of not receiving a grant in FY 2008 varies depending on the hospital.

In order to address the financial difficulties facing some of the state's hospitals, the Governor convened the Commission of Rationalizing Health Care Resources. Part of the Commission's charge is to develop criteria for determining which hospitals are essential to preserving access to quality care in their service area. The Commission is also tasked with developing the operating and performance requirements that an essential hospital would have to meet should they require financial assistance from the state.

## SENIOR SERVICES

14. During July 2006, the department awarded a contract for "third party services" related to the following programs: Caregiver Assistance Program, Adult Family Care, Assisted Living Program, Assisted Living Residence, Comprehensive Personal Care Home and the Jersey Assistance for Community Caregiving.

Under the terms of the contract, within six months the contractor must develop performance measures for the accuracy and timeliness of certain tasks, such as the submission of bills and invoices, payments to providers, resolution of claim discrepancies, etc. (Sec. 3.3.4.2). The contractor was to meet various other requirements such as the development of a performance measurement report (Sec. 3.3.4.30) and a co-payments report (Sec. 3.6.5).

- **Question:** Is the contractor in compliance with the terms and conditions of the contract? What, if any, contract provisions is the contractor failing to meet and what actions have been taken to correct these problems?
- **Answer:** The Department is satisfied that the contractor, Public Partnerships, LLC (PPL), is complying with the requirements of the contract. Participants in the JACC and waiver programs are receiving authorized services and providers are being reimbursed for providing those services. As to the contract requirement to develop performance measures within six months of the operational date, we have extended compliance with this requirement approximately one and one half months, due to and problems with Unisys billing and unforeseen difficulties with using our Home and Community Based Services (HCBS) data system. The contract officially began on September 11, 2006, which would require the development of performance measures by March 11, 2007. We have pushed compliance with reporting of performance measures to April 30.

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15. The Governor's FY 2008 recommended budget provides \$15.0 million for the Global Budget Long Term Care Initiative, the same as in FY 2007. Available FY 2007 data indicate that the program serves over 100 people and expenditures will be about \$1.0 million (State).

- **Question:** As FY 2007 expenditures will be about \$1.0 million, why is the FY 2008 appropriation not reduced? What steps are being taken to increase program participation?
- **Answer:** To date, about \$3 million (State) in claims expenditures are being processed for services provided from July 1, 2006 to January 31, 2007 under the Global Budget Initiative, known as Global Options (GO) for LTC. The development of the Unisys claims programming logic took longer than expected, which prevented claims from being processed for GO. Now that the programming logic is near completion, claims are now going through Unisys, and past participant claims will be recycled.

It is important to remember that GO is a multi-year change process to redesign New Jersey's long-term care system. The Department is implementing a multi-pronged approach to rebalancing the State's long-term care budget to support home and community based services (HCBS). Among the Department's recent accomplishments to increase participation in GO are the following activities: (1) a redesign of its business process for transitioning nursing home residents to HCBS; (2) the planning for an integrated IT system; (3) the development and validation of a new clinical assessment instrument for level of service needs, (4) the piloting of a client-tracking system; (5) the development with DHS in test counties of a fast track Medicaid financial eligibility process; and (6) the creation of a system of Statewide LTC service coordination and management through Interdisciplinary Teams comprised of nursing home social workers, NJ EASE care managers and DHSS staff.

To date in the current fiscal year, through GO, 221 persons have been transitioned from nursing homes to HCBS; 671 older adults living in the community were assessed, counseled and linked to HCBS; and 86 were screened through a fast-track process to determine if they qualified for Medicaid LTC services.

16. The FY 2007 appropriations act assumes savings of \$15.0 million by increasing the look back period for Nursing Home eligibility, from three to five years, as mandated by the federal Deficit Reduction Act.

- **Question:** To date, how many persons were determined ineligible for Nursing Home services as a result of this policy? Will savings of \$15.0 million be realized?
- **Answer:** The specific reasons why an applicant is denied for eligibility are not separately tracked by the county welfare agencies which conduct the eligibility determinations. The savings will not occur until FY 2009.

17. The proposed budget will eliminate reimbursement to nursing homes for holding beds for patients who are hospitalized, saving \$10.0 million. The rationale for this proposal is that since sufficient vacant beds exist in nursing homes compensating nursing homes for keeping beds available is not necessary.



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A review of 2005 nursing home occupancy rates indicates that upwards of 200 nursing homes have occupancy rates in excess of 90%. Thus, hospitalized patients from nursing homes with occupancy rates greater than 90% may not have a bed available once discharged from a hospital.

- **Question:** Should the elimination of reimbursement to nursing homes for holding beds be limited to nursing homes with an occupancy rate under 90%?
- **Answer:** The Bed Hold appropriation language still requires nursing homes to hold the bed for up to ten days while a patient is hospitalized, even if there is no reimbursement from Medicaid for the bed hold days. Therefore, a bed will be available to the patient as long as they are discharged from the hospital within ten days.

A recent Brown University study showed that states that paid bed hold days had a greater likelihood of high hospitalization rates for nursing home patients. While hospitalization stays can be life saving for nursing home residents, they remove these seniors from familiar surroundings. The Brown University study showed that despite the fact that New Jersey had the second highest daily Medicaid reimbursement rate to nursing homes, New Jersey ranked second out of 48 states in high hospitalization rates for nursing home patients. The Brown University study concluded that state policies such as bed hold unwittingly create financial incentives for nursing homes to hospitalize their frail elderly. It should also be noted that Medicare does not reimburse for bed hold days.

Although 63% of nursing homes have total occupancy of 90% or more, only 25% of the homes have more than 96% occupancy and only 16% have over 97% occupancy.

18.a. Nursing Homes and Medical Day Care Services providers would receive only 50% of the annual inflation adjustment, saving \$13.0 million in the aggregate.

- **Question:** How much of the \$13.0 million in savings accrues to Nursing Homes? How much accrues to Medical Day Care Services providers?
- **Answer:** \$12 million accrues to nursing homes and \$1 million accrues to Medical Day care services.

18.b. The annual inflation adjustment for nursing homes and medical day care services is based on the change in the average hourly earnings of manufacturing employees in New Jersey (60%) and the Consumer Price Index (40%). The inflation adjustment dates back to the 1970s when the Medicaid nursing home rate setting system was developed.

In the 1970s, manufacturing represented over 25% of the State's employment. Today, manufacturing represents less than 10% of the State's employment. As such, utilizing the change in the average hourly earnings of manufacturing employees as a variable may not be appropriate. Using average hourly earnings of "health care and social services" employees may be a more appropriate variable.

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- **Question:** As manufacturing is not as important a factor in the State's economy, is the use of "average hourly earnings of manufacturing employees" in determining the inflation adjustment still appropriate?
- **Answer:** DHSS would need additional information to review this proposal further. The Department of Labor wage survey includes hourly wages in hundreds of different job categories. Average hourly earnings of health care and social services employees include surgeons' and anesthesiologists' wages which are not appropriate for nursing home cost comparisons. Using these factors, the change in the average hourly earning of health care and social service employees would be higher than the current code. State costs would increase if this change were made in the calculation of the inflation rate. A change in regulations and a State Plan Amendment would be required.

19. Medicaid nursing home rates are established for three classes of nursing facilities: Class I Homes – proprietary and voluntary; Class II Homes – county owned or administered; and Class III homes – special care facilities.

In determining the Medicaid rates for Class I homes, the reported costs of Class II homes are considered. As the reported costs of Class II homes are generally higher than the reported costs of Class I homes, the Medicaid rates for Class I facilities are greater than they would be had Class II costs been excluded. In other words, excluding Class II nursing home costs in determining the Medicaid rates for Class I nursing homes would reduce the Medicaid rate for such facilities and reduce Medicaid expenditures.

- **Question:** How much might the State save if Class II nursing home costs were excluded in determining the Medicaid rate for Class I facilities?
- **Answer:** The costs for governmental/county nursing home are excluded in determining the Medicaid rate for proprietary and voluntary nursing homes, except for the administrator, assistant administrator and median days per bed. Excluding them from these calculations would not have any significant impact and would require a change in regulations and a State Plan Amendment. Costs for governmental/county homes are determined using a separate peer grouping methodology.

20. An FY 2007 supplemental appropriation for \$17.0 million for Nursing Homes is anticipated. However, available Medicaid data indicates that overall there has been no significant change in the number of nursing home patients or nursing home patient days in FY 2007 compared to FY 2006.

- **Question:** What accounts for this proposed \$17 million supplemental?
- **Answer:** The \$15 million in look back savings will not be realized until FY 2009.

21. In January 2007, federal regulations, 72 CFR 2236, were published that would "limit reimbursement for health care providers that are operated by units of government to an amount that does not exceed the provider's cost."

The State obtains upwards of \$50 million annually in federal Intergovernmental Transfer (IGT) payments by billing the federal government at the higher Medicare rate for county nursing

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homes. The proposed regulation would eliminate federal reimbursement and require an increase in State appropriations.

- **Question:** Does the \$681.9 million recommended appropriation include additional State funds to offset the possible loss of federal IGT funds?
- **Answer:** No. The \$681.9 million does not include additional State funds to offset the possible loss of federal reimbursement for nursing home costs. The rule was proposed in the Federal register on January 18, 2007. There has been considerable opposition to the proposal, and several groups, including New Jersey Medicaid, have submitted comments opposing the rule change. On March 22, 2007, the US Senate Appropriations Committee added an amendment to the Supplemental Appropriations bill to prohibit CMS from adopting the proposal. We are continuing to monitor progress of the Moratorium legislation and all related developments.

22.a. Under the terms of its new contract with Myers and Stauffer LLC, 20 to 40 full cost audits and 100 to 140 focused cost report audits on nursing homes are to be conducted each State fiscal year.

- **Question:** Will the specified number of full cost and focused cost report audits be carried out by the end of FY 2007? With respect to the focused audits, how much recoveries did these audits generate?
- **Answer:** The 40 full audits and 108 focused audits assigned for SFY 2006 will be finalized and delivered by June 2007. There is and always will be a time lag between the assignment and completion of the audits. SFY 2006 is the first time that focused audits were assigned and the overall effectiveness will not be determined until all are complete and a cost/benefit analysis is performed.

22.b. In FY 2005, 13 nursing home rate recalculations were completed resulting in recoveries of about \$2.2 million. In FY 2006, 31 rate recalculations were completed and approximately \$2.3 million in recoveries were anticipated.

- **Question:** How many rate recalculations are expected to be completed in FY 2007 and FY 2008? What is the expected dollar value of recoveries to be realized in FY 2007 and FY 2008?
- **Answer:** 171 rate calculations will be completed in SFY 2007 if the contractor delivers the 2006 assignments as planned. 140 will be completed in SFY 2008. Through March 2007, \$1.3 million has been collected. It is estimated that the amount recovered in SFY 2007 will be approximately \$2.1 million. In SFY 2006, \$889 thousand was recovered from one facility because of fraudulent practices uncovered by the federal government.

23. The FY 2008 recommended budget provides the Pharmaceutical Assistance to the Aged and Disabled program with an additional \$2.5 million for Personal Services and an additional \$1.0 million for Services Other Than Personal costs related to a PAAD Imaging Project.

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Implementation of the federal Medicare Part D Prescription Drug Program should reduce PAAD administrative costs. Prescription drug monitoring and utilization activities should be reduced as the Private Drug Plans that administer Medicare Part D have primary responsibility on these matters. This should free up State resources and reduce PAAD's administrative expenses.

- **Question:** To what extent has implementation of Medicare Part D reduced State PAAD administrative expenses? Can the increased appropriations be absorbed within the existing PAAD administrative budget?
- **Answer:** First, the overall increase in PAAD was not \$3.5 million, it was \$2.3 million.

The FY 2006 and FY 2007 budgets reflected the elimination of the contractor to perform PAAD drug monitoring and utilization activities. The First Health contract for this purpose ended on December 31, 2005, with the implementation of Medicare Part D. However, other administrative expenses for the PAAD and Senior Gold programs have not decreased with the implementation of Medicare Part D. A large part of the personnel and administrative costs in SFY 2006 and part of SFY 2007 were covered by a federal SPAP Transition Grant from CMS. The additional \$1.1 million in personnel services reflects the discontinuance of coverage of salary costs under the federal grant which must again be paid with state funds.

To ensure a seamless coordination of the PAAD program with Medicare Part D, the program must perform all the functions performed prior to Medicare Part D (eligibility determination, application processing, file maintenance, hotline, etc) and a myriad of new functions, including premium payments, assisting beneficiaries with choosing Part D plans, applying for Medicare Part D low income subsidies, and appealing drug formulary restrictions. PAAD records must be synchronized with records at CMS, SSA, Medicare prescription plans, and sometimes retiree prescription plans. It is this seamless coordination with Medicare Part D that has saved the State more than \$300 million in SFY 2007.

There is an additional \$1 million in the SFY 2008 recommended administrative budget for an imaging project. The project entails the implementation of scanning technology to assist in processing PAAD eligibility applications. With this technology, PAAD will reduce the work associated with the handling and processing of eligibility applications for PAAD and Senior Gold. We hope to use scanning technology to keep administrative and personnel costs as low as possible, and reduce overtime and the need to hire temporary workers.