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To: County Chief Fiscal Officers

From: Division of Local Government Services and Economic Development

Subject: Medicaid Cap Update

Please give copies of this bulletin to others who may need this information.

Purpose

This bulletin supplements our July 2005 Advisory Release - Medicaid Cap Legislation - and is intended to provide information on budgeting and financial reporting stemming from the recent legislative changes to "cap" county Medicaid costs.

Background

As mentioned in our July 2005 Advisory Release, a new law was enacted (Chapter 58 of the Laws of 2005) to cap county Medicaid costs at calendar 2005 levels and limit growth rates to 3.5 percent in 2006 and 3.25 percent in 2007. Future growth rates will then be permanently capped at 3 percent starting in 2008 (or, at county option, a fixed percentage of local sales tax revenue). The cap is established based on each county's local share expenditure made during the 2005 calendar base year. Counties will potentially receive two types of benefits resulting from this law. First, future costs will be limited to growth rates as described above. The second benefit will be a one-time, year-end accrual benefit. This latter benefit will occur because the State will be relieving counties of the year-end accrued liabilities associated with various Medicaid expenditures where cash reimbursement is lagged, offset by accrued revenue receivables which would typically be paid to counties after year end. While not every county will have a net benefit from this accrual closeout process, most should realize a benefit for 2005.

Base Year 2005 Calculation and 2006 Budgetary Estimate

The 2005 calendar base year calculation is key to establishing the Medicaid cap amount that each county will be required to pay to the State in weekly installments beginning January 2006.

This past summer, the New York State Division of Budget (DOB) and the New York State Department of Health (DOH) provided each county with individualized worksheets containing an estimate of the base Medicaid cap amount using data from calendar year 2004, and an estimate of the one-time year-end accrual close-out benefit, if any, using 2004 and 2005 data. These individualized worksheets were provided to allow county officials to identify the elements used in the calculation, and to apply the methodology outlined in those worksheets to help estimate a county's 2005 base year amount and potential year end 2005 accrual close-out impact. DOB and DOH will issue updated local share cap estimates for the 2005 base year to counties in November 2005.

Many counties have used the worksheet methodology for calculating estimated 2005 base year cap amounts for budgetary purposes. County officials should carefully review those estimates against the 2005 base year estimate update to be provided by DOB and DOH in November. Updated base year estimates should be used to make any necessary budget modifications before a final 2006 tax levy is established.

The timing of the updated November 2005 estimates to be provided to the counties by DOB and DOH falls just short of year-end 2005, and a final reconciliation of the 2005 base year calculation will not be provided to counties until June 30, 2006. Any adjustments due to this final reconciliation will be made during the remaining weekly payments in State fiscal year 2006-07. It is expected that the final reconciliation will have a minimal impact on each county's weekly payment amount.

Once the final calendar year 2005 local share cap has been set, future local appropriation needs can be based on the trend factors included in the legislation (i.e. 3.5 percent in CY 2006, 3.25 percent in CY 2007 and 3 percent annually thereafter). In addition to amounts specified in Chapter 58, DOH has indicated that districts will still be responsible for the local shares associated with intergovernmental transfers including indigent care adjustments.

Closeout of 2005 Operations

Chapter 58 fundamentally alters the current Medicaid financing methodology. As a part of this change, previously recorded liabilities for county Medicaid expenditures will no longer be required. However, this savings must be offset by the loss of various Medicaid recoveries and reimbursement for the mentally disabled local share previously recorded as revenue receivables. While not every county will have a net benefit from this accrual closeout process, most should realize a benefit for 2005.

Estimates to be provided to counties by DOB and DOH in November 2005 will <u>not</u> contain an estimate of the expected one-time benefit for 2005 (if any) as a result of this accrual close-out process, since that benefit should now be calculated by each county using revised budgetary data for 2005.

Counties should begin by following their normal process of estimating year-end Medicaid expenditures through December 31, 2005, and update their budget forecasts.

Next, counties should focus on the change in accruals produced by the Medicaid cap. Under Generally Accepted Accounting Principles (GAAP), governmental fund liabilities are recorded only when they are normally expected to be liquidated with expendable and available financial resources. Under the new law, Medicaid liabilities paid after January 1, 2006 will now be paid from expendable and available resources of 2006. Thus, no 2005 accrual is required. Similarly, 2005 receivables previously recorded under the Medicaid program will no longer be available in 2006 under the new law. Therefore, the test of these revenues being measurable and available will no longer be met, and these receivables can no longer be recorded in 2005. The net value of eliminating these revenue and expenditure accruals represents the budgetary benefit produced by the State cap (eliminating expenditure accruals will have a positive budgetary impact; eliminating revenue accruals will have a negative impact).

Finally, this net value should be compared with any previous budgetary assumptions about these accrual changes. This is especially important for those counties expecting to recognize a favorable, positive impact on year-end 2005 fund balance and who have established a planned use, if any, for this fund balance in 2006.

Account Code – Medicaid Expenditures

The current accounting codes for Medicaid revenues and expenditures will continue to be used for reporting 2005 financial results. However**,** beginning with the first weekly payment in 2006, counties should record their Medicaid expenditures in appropriation account A6100.4 - Medicaid. This new account will be included in the financial reporting software for 2006.

Reporting

OSC is advising counties to recognize and report the results of the accrual closeout process in their 2005 financial statements, since we believe that this benefit will be largely measurable at year end. Counties should consult with their external auditors to explain the accounting changes driven by the State's actions and confirm this interpretation.

As a result of the State cap, some 2005 revenue and expenditure accounts may show material variances between budgeted and actual amounts. Because of these variances and the significant changes in accounting for Medicaid costs produced by Chapter 58, counties should provide appropriate note disclosure in their 2005 financial statements.

Assistance

Program information and questions associated with the Medicaid cap legislation or the calculation of the cap amount should be addressed to either Emil Slane at DOB at (518) 474-2318 or Robert Reed at DOH at (518) 474-8565. For accounting questions please contact Jeff Madej at OSC at (518) 474-6414. The New York State Association of Counties has also offered to provide assistance, and can be reached at (518) 465-1473.

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