Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

December 14, 2010

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Health Services: Request to Use Federal Stimulus Funding for Activities Relating to the Medicaid Electronic Health Records Incentive Program -- Agenda Item V

REQUEST

The Governor requests that the Joint Committee on Finance approve the allocation and expenditure of $1,661,900 FED in 2010-11, from moneys received under the federal American Recovery and Reinvestment Act of 2009 (ARRA), for activities that will enable the Department of Health Services (DHS) to continue to develop the state Medicaid health information technology plan (SMHP) so that it will be able to begin making payments to providers under the Medicaid electronic health records incentive program, beginning in the summer of 2011.

BACKGROUND

Incentive Payments

Title IV of ARRA created two financial incentive programs to encourage certain eligible professionals (EPs) and hospitals to become "meaningful users" of electronic health records (EHRs). These incentive payments will be provided through the federal Medicare program and state medical assistance (MA) programs.

Medicare. Beginning in January, 2011, the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS) will begin providing Medicare financial incentives for EPs who are meaningful EHR users. For the purposes of this program, EPs include five types of health care professionals -- doctors of medicine or osteopathy, doctors of oral surgery or dental medicine, doctors of podiatric medicine, doctors of optometry, and chiropractors. Hospital-based EPs (EPs that furnish at least 90% of their services in inpatient hospital or emergency room settings) are not eligible to participate in the program.

For each EP, the incentive payments will be equal to 75% of Medicare allowable charges for covered services furnished by the EP in a year, subject to a maximum payment in the first, second, third, fourth, and fifth years of $15,000, $12,000, $8,000, $4,000, and $2,000, respectively. In calendar years 2011 and 2012, the maximum payment is $18,000 in the first year an EP participates in the program. The incentive payments will terminate after 2016, and there will be no incentive payments for EPs who first become meaningful users in 2015 or thereafter. For EPs who are not meaningful EHR users, the Medicare reimbursement they receive will be reduced by 1% for 2015, by 2% for 2016, by 3% for 2017. If CMS determines that, in 2018, less than 75% of EPs are meaningful EHR users, the payment adjustment will change by one percentage point each year until the reduction equals 5%.

Beginning October 1, 2010, hospitals and critical access hospitals that adopt certified EHR systems and are meaningful users of EHRs are eligible for Medicare payment incentives. Hospitals that are meaningful EHR users can receive up to four years of financial incentive payments, beginning in federal fiscal year (FFY) 2010-11. These payments will terminate after FFY 2014-15. The incentive payment for each eligible hospital will be based on the product of an initial amount (equal to a base amount of $2,000,000 plus a discharge-related amount), a "Medicare Share" (a fraction based on the estimated Medicare fee-for-service and managed care inpatient bed days divided by estimated total inpatient bed-days, as modified by charges for charity care) and a "transition factor" (which phases down the value of the incentive payment by 25% per year). Hospitals that are not meaningful users of EHR technology will be subject to Medicare payment reductions, beginning October 1, 2014.

Medicaid. ARRA provides 100% federally-funded incentive payments for states to provide to EPs who adopt, implement, upgrade, or meaningfully use EHR technology in their first year of participation in the program and successfully demonstrate meaningful use of EHR technology in subsequent years. Eligible EPs include physicians, dentists, certified nurse-midwives, nurse practitioners, and physician assistants practicing in federally qualified health centers or rural health clinics led by a physician assistant. Hospital-based EPs are generally not eligible to participate in the incentive program. Eligible professionals must meet minimum patient volume percentages. EPs that adopt, implement, upgrade, or meaningfully use certified EHR technology in their first year of participation in the program and successfully demonstrate meaningful use in subsequent years may be eligible for an incentive payment of $21,250. In subsequent years, the maximum incentive payment is limited to $8,500. Since incentive payments are available for up to a six-year period, the maximum total payment an EP could receive is $63,750 ($21,250 in the first year and $8,500 in each of the subsequent five years).

State Medicaid agencies may begin offering incentive payments to EPs in January, 2011. The last year an EP may begin to participate in the program is 2016. The last year any Medicaid incentive payments will be paid to EPs will be 2021. EPs may not receive EHR incentive payments from both the Medicare and Medicaid programs in the same year.

Acute care hospitals and critical access hospitals with at least 10% Medicaid patient volume, as well as all children's hospitals (regardless of their Medicaid patient volume) are also eligible for incentive payments if they adopt certified EHR systems and are meaningful users. Hospitals can begin receiving these incentive payments in any FFY from 2010-11 through 2015-16. However, no incentive payments will be available to qualifying hospitals after FFY 2015-16. The incentive payment each qualifying hospital receives is based on a formula that multiplies the overall "EHR amount" with a "Medicaid share" amount. The EHR amount is the product of the following: (a) an initial amount (equal to a base amount of $2,000,000 and a discharge-related amount that provides an additional $200 for each discharge between 1,150 and 23,000 discharges); and (b) a transition factor equal to 1.00 in the first year, 0.75 in the second year, 0.50 in the third year, and 0.25 in the fourth year. The Medicaid share amount equals the sum of the estimated number of MA inpatient days and MA managed care inpatient days divided by the product of the following: (a) the estimated total number of inpatient bed days; and (b) the estimated total of amount of the eligible hospital's charges during that period, excluding charity care, divided by the estimated total amount of the hospitals charges during that period.

Based on information provided by the Wisconsin Hospital Association and DHS Medicaid staff that conducted a provider survey and reviewed Medicaid claims and encounter data, DHS estimates that it will distribute approximately $101 million in incentive payments to eligible MA providers, beginning in 2011, through July, 2022. This estimate includes $60 million that will be paid to approximately 60 hospitals, with payments ranging from $0.2 million to $5.7 million per hospital, and approximately $41 million that will be paid to 650 EPs, with each EP receiving the maximum total incentive payments ($63,750). However, as these estimates reflect assumptions regarding which providers would qualify for the incentive payments, when they would qualify, and, for hospitals, the Medicaid share of their total inpatient days, they should be considered somewhat uncertain.

State Administration of the Medicaid Incentive Program

ARRA does not require state Medicaid agencies to administer the Medicaid incentive program. However, if a state chooses not to participate in the program, EPs and hospitals in the state will not receive the 100% federally-funded Medicaid incentive payments. ARRA establishes a 90% federal financial participation rate for state administrative expenses to develop the SMHP and implement MA incentive payments.

In order to participate in the program, a state Medicaid agency must prepare the following three types of documents for CMS's review and approval:

- A health information technology planning advance planning document (HIT PAPD), a plan that requests federal matching funds and approval to accomplish the planning necessary for a state agency to determine the need for and plan the acquisition of HIT equipment, services, or both;

• A state Medicaid health information technology plan (SMHP), which includes a detailed plan for the state's administration of the Medicaid provider incentive payment program, procedures that the state will use to oversee the program, including tracking meaningful use of EHRs, the state's goals and objectives, and a "roadmap" that indicates how the state will achieve its goals and objectives; and

• A health information technology implementation advance planning document (HIT IAPD), a plan of action that requests federal matching funds and approval to acquire and implement the proposed SMHP services, equipment or both.

DHS has prepared and submitted all three of these documents, each of which CMS has approved. However, DHS will need to periodically update the SMHP and the HIT IAPD as it begins to implement the incentive program.

The state's administrative responsibilities relating to the program include processing enrollments, issuing payments, conducting audits, processing appeals, providing help desk support, developing and delivering program communications and training, and pursuing initiatives to promote adoption and meaningful use of certified EHR technology to assist in the exchange of health information.

Previous Action by the Committee

On January 6, 2010, the Committee approved a request by DHS to use $1,369,500 FED (ARRA funds) in 2009-10 to develop the PAPD and to begin to develop the SMHP. The state's share of the cost of these activities was provided through base funding budgeted to support general program operation of the Division of Health Care Access and Accountability ($152,169).

ANALYSIS

On September 20, 2010, CMS notified DHS that it had approved the state's SMHP and HIT IAPD. In its approval letter, CMS indicated that it had approved activities relating to the further development of the SMHP and the IAPD, with costs totaling $2,594,100 ($259,400 GPR and $2,334,700 FED (ARRA)) in federal fiscal year 2010-11. Of these costs, DHS anticipates that $1,846,500 ($184,700 GPR and $1,661,900 FED) will be incurred in state fiscal year 2010-11. This is the basis of the Governor's request.

The components of the plan, as described in the HIT IAPD, are shown in the following table.

CMS-Approved Budget for Continuing Development of SMHP and HIT IAPD
Federal Fiscal Year 2010-11

Activity	State Costs	Contractor Costs	Total Costs	State Share	Federal Share
Project Start-Up and Management	$20,848	$105,738	$126,586	$12,659	$113,927
Finalize Policies for Payment Year 2011	31,273	158,606	189,879	18,988	170,891
Define Actions to Implement Incentives in 2012	52,121	264,344	316,465	31,647	284,819
Update Description of Current Landscape	20,848	105,738	126,586	12,659	113,927
Update Description of Future Landscape	62,545	317,213	379,758	37,976	341,782
Perform a Gap Analysis	20,848	105,738	126,586	12,659	113,927
Update IT Roadmap	31,273	158,606	189,879	18,988	170,891
HIT/E Adoption Activities	41,697	211,475	253,172	25,317	227,855
Conduct Provider Communication and Outreach	31,273	158,606	189,879	18,988	170,891
Prepare Updated SMHP	20,848	105,738	126,586	12,659	113,927
Prepare Updated HIT IAPD	31,273	158,606	189,879	18,988	170,891
Program Operations	52,121	264,344	316,465	31,647	284,819
State Travel Costs	39,400	0	39,400	3,940	35,460
Multi-State Collaboration Participant	8,000	0	8,000	800	7,200
Provider and Member Printing/Mailings	15,000	0	15,000	1,500	13,500
Total	$479,368	$2,114,752	$2,594,120	$259,412	$2,334,708

A brief description of each of these activities follows.

Project Start-Up and Management. To initiate the second phase of the project, DHS will conduct a series of project start-up activities to establish the tools and processes to facilitate the next iteration of the SMHP. These activities include: (a) updating the project work plan, detailing new tasks and timelines; (b) establishing workgroups to develop the next iteration of the SMHP; and (c) identifying MA staff to participate in the planning activities for the statewide health information network and health information exchange.

Finalize Policies for the EHR Incentive Program for Payment Year 2011. DHS will conduct additional planning to further analyze and finalize policies for the Medicaid EHR incentive payments for the first year. DHS will review data sources that will be used in calculating incentive payments to hospitals, determine how the agency will assist Medicaid providers to adopt and meaningfully use EHR technology, and define the testing process for EPs and hospitals to demonstrate capability to send and receive data electronically.

Define Specific Action to Implement Incentives for Payment Year 2012. DHS will define activities to ensure that the state can accept the electronic submission of clinical quality measures through certified EHR technology, define the plan to audit the data, and make adjustments to the first iteration of the SMHP based on the results of implementing the incentive program in the first year.

Update Description of Current Landscape. DHS will update sections of the SMHP that

describe the current health information technology "landscape," including MA system assets for the incentive program. DHS will also update information on the results of the analysis related to the state centers for people with developmental disabilities, and the number of EPs practicing at the centers.

Update Description of Future Landscape. DHS will further define the system architecture and governance structures that will need to be in place for the agency to successfully operate the program and achieve long-term health information technology goals. Activities include defining the plan for how MA providers will interface with the system architecture for the MA incentive program, and finalizing the health information exchange services that will be built and provided by the MA agency as part of the statewide health information network architecture.

Perform a Gap Analysis. DHS will perform an analysis of the current and future landscapes to identify the gaps between the two landscapes. The analysis will refine the specific implementation activities that will need to occur for the next phase of the Medicaid incentive program.

Update Medicaid HIT Roadmap. DHS will update the SMHP "roadmap," which identifies key milestones in moving from the current landscape to the future landscape. The development of the roadmap will be based on the gap analysis and the specific areas that need to be addressed in order to achieve the future landscape. DHS will prioritize these areas based on pre-defined factors, such as funding considerations and program priorities.

Conduct Provider Communication and Outreach Planning Activities. Funding will be allocated to update the communication and outreach plan to reflect new communication, outreach, and training strategies and messages.

Prepare Updated SMHP. DHS will prepare an updated SMHP and provide the summary of changes to assist CMS in its review of the updated plan.

Prepare Updated HIT IAPD. DHS will prepare an updated HIT IAPD that requests 90% federal funding to implement the updates in the SMHP.

Program Operations, Travel, Multi-State Collaboration and Communications. Funding is budgeted to support general program operations costs DHS and its contracted agencies will incur in conducting the activities described above. In addition, funding is budgeted to support costs of state staff to travel to attend meetings with providers and non-governmental entities while the plan is developed, communications with stakeholders and printing costs, and to support the state's participation in the National Association of State Medicaid Directors Multi-State Collaborative to obtain and share information that will be useful in developing the SMHP.

As previously indicated, CMS has approved the DHS plan, as described in this memorandum. DHS will submit quarterly updates to CMS on the state's progress in achieving the

tasks outlined in its planning document. It will be necessary for DHS to conduct these activities in order for DHS to begin making 100% federally-funded Medicaid incentive payments to qualifying EPs and hospitals, beginning in 2011. For these reasons, the Committee may wish to approve the administration's request.

ALTERNATIVES

1. Approve the Governor's request to increase expenditure authority for DHS under s. 20.435(4)(n) by $1,661,900 FED in one-time ARRA funds in 2010-11 to enable DHS to continue the development of the state Medicaid health information technology plan (SMHP) and to conduct activities that will enable DHS to administer the Medicaid electronic health records incentive program, beginning in the summer of 2011.

2. Deny the request.

Prepared by: Charles Morgan