

Government of the District of Columbia
Office of the Chief Financial Officer



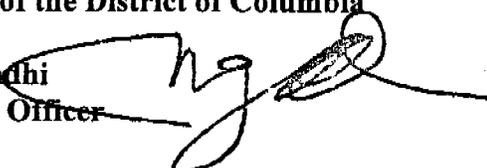
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Natwar M. Gandhi
Chief Financial Officer

CHAIRMAN GRAY

MEMORANDUM

TO: The Honorable Vincent C. Gray
Chair, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer 

DATE: JUN 19 2007

SUBJECT: Fiscal Impact Statement: "Department of Health Care Finance
Establishment Act of 2007"

REFERENCE: Bill Number 17-76 as Introduced

Conclusion

Funds are available in the FY 2008 budget and financial plan to implement the proposed legislation; however, additional appropriations would be needed to fund the proposed legislation for FY 2009 through FY 2011. The negative impact of the proposed legislation would be \$2.13 million for the FY 2008 through FY 2011 period.

Costs to the District reflected in this impact statement are only representative of the facts that are currently known about the proposed legislation. Costs and any potential savings would be more accurately understood upon the completion of the Mayor's plan for the establishment of the Department of Health Care Finance (DHCF).

Background

The proposed legislation would establish the DHCF as a separate Cabinet-level agency subordinate to the Mayor to manage the District's receipt and distribution of all federal Medicaid dollars. The intent of the proposed legislation is to consolidate the financing of health care services to Medicaid-eligible individuals and those covered by the D.C. Health Care Alliance into a single state agency.

Under the proposed legislation, all functions, equipment, property, personnel, and budget authority that currently rest with the Health Care Safety Net Administration (HCSNA) and the Medical Assistance Administration (MAA) would be transferred from DoH to the DHCF within 30 days of Council approval of the Mayor's plan.

The process for establishing the DHCF would be a joint responsibility of the Mayor, Chief Financial Officer (CFO), DoH, and Department of Human Services (DHS), as is outlined in the proposed legislation:

- Within 90 days of the passage of the Act, the Mayor would have to submit to Council a plan, approved by the CFO, that identifies any and all appropriate functions, any real and personal property, personnel, appropriations, etc., that are used to provide Medicaid services to the District's population.
- The Office of the Chief Financial Officer (OCFO), DoH, and DHS would jointly deliver a report on the functions, personnel, and responsibilities that would be transferred to the Director of Health Care Finance to the District of Columbia Council within 45 days of the passage of the Act.
- The Director of DHCF would work with the OCFO to determine personnel accountable for the development and monitoring and allocation of functions and transfers to effectuate the purpose of the Act.
- The Mayor would then submit the proposed plan for DHCF to the Council for a 45-day review period.

Financial Plan Impact

The Council has set aside funds in the FY 2008 Budget Request Act of 2007 to cover the cost of the proposed legislation in FY 2008, but has not identified necessary funding to cover the cost of the proposed legislation in FY 2009 through FY 2011.¹

At present, DoH derives \$1.7 million of Indirect Cost Recovery Funds (IDCR) from the U.S. Department of Health and Human Services (HHS).² With the formation of the new DHCF, DoH would forgo this revenue because the new DHCF would handle all administrative and overhead functions of the Medicaid program and would thus accrue IDCR funds *in lieu* of DoH. It is estimated that the IDCR that would accrue to the new DHCF would be \$1 million, and not \$1.7 million that currently accrues to DoH, as DHCF would have lower reimbursable overhead costs in comparison to DoH.³ Without additional funding from Council, and assuming a constant IDCR rate, this would result in a net financial annual loss of \$700,000 to the District.

¹ The Committee of the Whole Report for the FY 2008 Budget Request Act of 2007 provides for \$800,000 to the Non-Departmental line to establish a Department of Health Care Finance. This is a one-time expenditure.

² IDCR funds are federal funds meant to lower the burden of the operational cost (overhead) of administering the receipt and distribution of Federal grant dollars. The rate is based on the percentage of personnel service expenditures on each grant with an approved IDCR rate. IDCR rates are set annually by the U.S. Department of Health and Human Services (HHS) based on an approved cost allocation plan.

³ DoH has higher reimbursable overhead costs associated with the receipt and distribution of Federal grant dollars than the proposed DHCF. This is because the new agency (DHCF) would be set up to be a smaller, more focused

Since funding for the proposed legislation has not been identified in FY 2009 through FY 2011, the District would incur a net financial loss of \$2.13 million over four years.

This cost to the District is only representative of the facts that are currently known about the proposed legislation. Costs and any potential savings would be more accurately understood upon the completion of the Mayor's plan for the establishment of DHCF.

Estimated Revenue Impact to the Financial Plan*					
(in Millions)					
	FY 2008	FY 2009	FY 2010	FY 2011	4 -Year Total
DoH	(\$1.7)	(\$1.75)	(\$1.8)	(\$1.86)	(\$6.8)
DHCF	\$1.0	\$1.03	\$1.06	\$1.09	\$4.18
Council Funding	\$0.8	\$0	\$0	\$0	\$0.8
Total Impact	\$0.1	(\$0.72)	(\$0.74)	(\$0.77)	(\$2.13)

* Estimates do not take into consideration any costs or savings associated with the establishment of DHCF upon the completion of the Mayor's plan, which would take place *after* the passage of the proposed legislation.

* Assumes 3% annual inflation.

Section 4(d) of the proposed legislation conflicts with Title II of P.L. 109-356, which requires the CFO to provide financial management and oversight for all District of Columbia government agencies.

organization with lower overhead costs; thus it would derive fewer IDCR funds from HHS than DoH currently receives. As a result of these new arrangements, the OCFO (Associate Chief Financial Officer for Human Support Services) estimates that the District will forgo approximately \$700,000 in IDCR funds yearly, assuming a constant IDCR rate.