

Board Meeting
January 21, 2010

ROLL CALL

DELEGATE AUTHORITY TO THE UNIVERSITY COMPTROLLER TO EXECUTE
INTERGOVERNMENTAL AGREEMENT WITH
ILLINOIS DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES AND
AUTHORIZE DEPOSITS TO THE UNIVERSITY OF ILLINOIS HOSPITAL
SERVICES FUND

Action: Delegate Authority to Execute Intergovernmental Agreement with Illinois Department of Healthcare and Family Services and Authorize Deposits to the University of Illinois Hospital Services Fund

Funding: State Appropriation

As the single State Medicaid agency, the Illinois Department of Healthcare and Family Services (IDHFS), provides funding to the University of Illinois Hospital (UIH) for Medicaid-funded patient care. In response to changes in federal regulations IDHFS is required to implement a new Medicaid rate methodology and payment process for UIH. The new regulations require the transfer of \$45 million of appropriated State General Revenue Funds (GRF) from the University to the UIH Services Fund. To implement these requirements, the University and IDHFS are negotiating an Intergovernmental Agreement (IGA). This Board item asks the Board to delegate authority to the Board's Comptroller to execute the IGA and to authorize the Comptroller to deposit to the UIH Services Fund GRF funds on a monthly basis pursuant to a payment schedule specified by IDHFS, after receiving the specified GRF funds from the State Comptroller's office on a monthly basis for this purpose.

Background

In the late 1980s, the UIH was experiencing a financial crisis and, as a result, additional State funds were requested from the State Legislature. The University received approximately \$15 million in State General Revenue Funds via an annual appropriation to the IBHE for the purpose of supplementing the revenue for UIH operations. Subsequently, the \$15 million was matched dollar for dollar by the federal Medicaid program increasing the amount in supplemental funds to the hospital to about \$30 million on an annual basis. Over time the supplemental funds increased to nearly \$51 million on an annual basis due to increased Medicaid patient volume and due to general increases in State funding. Most recently, the amount of supplemental funds made available to UIH totaled \$45 million.

In October 1993, the University, on behalf of UIH, executed an Intergovernmental Transfer Agreement (IGT) with the State Medicaid agency (then called the Illinois Department of Public Aid, now IDHFS). The IGT memorialized the supplemental funds (referred to as Certified Funds) and the State Medicaid payment methodology for reimbursing the UIH for Medicaid patient care. The IGT included the supplemental funds and the other State and federal Medicaid funds with a fund transfer component which required a weekly transfer of funds from the University back to the State. Since the time that the IGT has been in effect, the State Legislature has appropriated State General Revenue Funds to the IBHE for the express purpose of supplementing the UIH cost of operations. IDHFS then claims federal matching funds to increase the total amount of Medicaid funds available to the UIH. Essentially, the current amount of the supplemental GRF funds, \$45 million, is committed for UIH operations

even though these State funds are disbursed to the University as part of the total GRF disbursement to the University.

Changes in Medicaid Reimbursement

Since 1993, there have been relatively few changes in the way UIH has been paid by the State Medicaid program. However, for nearly a decade, the federal government has been directing states to end their Intergovernmental Transfer Agreements with public hospitals such as UIH and Cook County. In regard to the State of Illinois, the federal government reached an agreement with IDHFS to begin ending the IGT with the University as soon as possible.

In fall 2009, UIH and IDHFS began planning and testing a new Medicaid payment formula for UIH and began to discuss the changes necessary for a new Intergovernmental Agreement under which Medicaid payments would be made to UIH in the future. A first draft of the proposed new IGA has been developed by IDHFS for review by the University. This review is currently in process.

Since 1993, the supplemental State funding to UIH has been part of the total Medicaid payment to UIH by the State and the University has annually certified that it has spent the amount of the GRF supplemental funding (now \$45 million) on Medicaid patient care. Under the changes to the payment process, the University will deposit this same \$45 million amount to the UIH Services Fund, which is located in the State Medicaid agency budget as a separate line exclusively for UIH Medicaid payments. The proposed changes in the Medicaid payment formula are not expected to reduce the \$45 million of supplemental funding supplied to UIH.

To date, no part of the \$45 million has been deposited to the UIH Services Fund out of which the UIH is paid for Medicaid services. That is because IDHFS has seeded the UIH Services Fund with available GRF from their appropriated funds. It is essential that the University begin to deposit the \$45 million to the UIH Services Fund in installments to prevent the depletion of the funds and the potential loss of significant federal Medicaid funds for the UIH Medicaid program. To this end, IDHFS has issued an installment payment schedule for the University to begin to make these deposits. The payment schedule is described in Attachment 1.

The \$45 million of GRF funds that will be transferred to the UIH Services Fund will be combined with \$30 million of IDHFS funding. The \$75 million will generate an estimated \$125 million of federal Medicaid match resulting in total funding of \$200 million on an annual basis for UIH Medicaid services.

Discussions have been held with the Comptroller's Office to determine if they could prioritize a disbursement of State GRF funds to the University for the express purpose of making timely deposits to the UIH Services Fund. UIH is the largest single site Medicaid provider for the State, and as such if payments were not made to UIH for Medicaid services the State would stand to lose a significant amount of federal matching Medicaid funds. The understanding reached with the Comptroller's Office and IDHFS is that State GRF funds need to be identified by the Comptroller and disbursed to the University promptly in order for the University to make timely deposits to the UIH Services Fund. If at any point in time the Comptroller does not disburse the requisite GRF for these transfers, the University is not obligated to deposit any funds.

Action Requested

The Chancellor at Chicago therefore recommends that the Comptroller of the Board be authorized to execute an IGA with IDHFS related to reimbursement for services provided to Medicaid patients by UIH on behalf of the State. The IGA will define services, rate methodology, and Medicaid payment processing between UIH and IDHFS. In addition, the Chancellor recommends that the Board authorize the Comptroller of the Board to deposit GRF fund receipts into the UIH Services Fund on a monthly basis pursuant to the payment schedule specified by IDHFS, subject to the University's receipt of the specified GRF funds from the State Comptroller's office on a monthly basis for this purpose.

The Board action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organizations and Procedures*, and Board of Trustees policies and directives.

The Interim President of the University concurs.