School Finance Hot Topics – May 17, 2017

Upcoming WVDE Training Opportunities

As a reminder, the OSF Annual Summer Conference will be held on July 18-20, 2017 at the Bridgeport Conference Center. The registration link and hotel information will be released soon. This year's theme is "A Midsummer Night's Conference."

The Certified List of Personnel Training will be held on July 27, 2017 at the Bridgeport Conference Center. The registration link and hotel information will be released soon.

We will be looking to schedule a date for a New CSBO Training sometime in the early fall due to the higher than normal turnover in the position. If you attended this training last fall and have any suggestions for things that you wish we had covered, please let us know. We want to make sure that the training provides relevant information for new CSBOs. Once a date has been selected, we will notify the listserv.

Medicaid - FY15 Cost Settlement Remaining Issues

It was confirmed by DHHR on April 26, 2017 that all county boards of education that were due funds from DHHR as the result of the Interim FY15 Medicaid annual cost settlements should have received the funds. However, county boards of education that owe funds to DHHR for the FY15 cost settlement have not yet been sent notices by DHHR outlining the repayment options. Those notices should be sent sometime in the near future. The three payback options are generally as follows:

1. Write a check for the full amount
2. Have the payback amount withheld from future claims (including future cost settlements)
3. Enter into a 12 month repayment plan

The final FY15 cost settlements won't be conducted until after all windows for rebilling and correcting fee-for-service claims have passed. While it is possible that a county board of education could owe funds to DHHR on the final cost settlement because a fee-for-service claim has been final adjudicated and paid after the interim cost settlement was calculated, any such amounts should be extremely immaterial.

Therefore, county boards of education should continue to correct/adjust in process fee-for-service claims until all can be resolved. Only in a situation where a county is initially billing a large volume of claims within the one-year claim window for a year where the interim cost settlement has already been performed should a county consider not submitting those initial fee-for-service claims. That should be a very rare situation now that all but one county board of education is billing in a more timely manner (and even that county is trying to get caught up for future years). If a county finds themselves in such a situation, it is recommended that they consult with the WVDE Office of School Finance for a recommendation of how the final cost settlement may be impacted before making a final determination regarding submitting outstanding initial claims.

Medicaid - FY16 Cost Settlement Expected Timeline

County boards of education are currently wrapping up the FY16 Annual Cost Report desk review process with PCG. This year, the desk review process was conducted entirely through the PCG system (for FY15 it was all handled via email). As of May 12, 2017, PCG indicated that only 3 desk reviews had not yet been finalized but they were actively working with all 3 counties to get the remaining issues finalized.

The interim claim data for FY16 for dates of service from July 1, 2015 through June 30, 2016 will be pulled from the Molina system in mid-May 2017 for population into the PCG system for use in the cost settlement calculation. Any paid claims for those dates of service should be included in the interim claim data.

We do not anticipate any unique claims data situations for the FY16 cost settlement like we experienced with the FY15 cost settlement.

> In FY15, county boards of education were billing for transportation as round trips and often billing for both transportation codes for the same trip. Because the billing wasn't consistent across the state, PCG had to do custom analysis for each county to determine the appropriate conversion to paid one-way trips for the cost settlement. For FY16, county boards of education began billing for one-way trips instead of round-trips, so no conversion should be needed.
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> Also in FY15, many county boards of education erroneously billed for IEPs at the beginning of the fiscal year and then had to pay back those funds in the middle of the year. No credit was initially given on the cost settlement for those paybacks until the issue was discovered. During FY16, no county boards of education billed for IEPs and we are aware of no other "payback" situations. To our knowledge, any FY16 fee-for-service claims which needed repaid were reversed in Molina, which is the proper way to ensure that the repayment for a fee-for-service claim doesn't impact the cost settlement.

Once PCG has entered the interim claims data from Molina into the system, they will begin the cost settlement calculations for FY16. They anticipate that the cost settlement amounts will be known by no later than the end of June 2017. Any amounts that DHHR will owe to county boards of education are expected to be remitted to the county boards by no later than August 31, 2017. WVDE has stressed the importance of ensuring the funds are paid to the county boards by that date for favorable revenue recognition on the financial statements of the county boards of education.

Medicaid – Interim Claims Data

During the FY15 cost settlement process, many CSBOs contacted their RESAs to try to tie down the numbers that were populated in the PCG system from the Molina report as the paid fee-for-service claims for FY15. Similar assistance will likely be requested during the FY16 cost settlement process. CSBOs are unable to tie these amounts back to the WVEIS financial records due to the timing of the payments. Because fee-for-service claims can be submitted up to one year from the date of service and many county boards do not bill every claim routinely every month (some are months behind, some have historically held every claim until the end of the year, for others the transportation claims aren't submitted until all other claims for the year are processed, etc.), the funds are not necessarily received in the same fiscal year in which the date of service occurred. While it is generally assumed that Medicaid payments received in July and August are for dates of service in the previous fiscal year, it would be extremely rare that the amounts would match up perfectly.

With the assistance of selected county boards, WVDE did limited testing of the Molina claims report and it was deemed to be accurate for FY15. The same report will be used for FY16. However, most CSBOs will still desire assurance from the RESA that the amounts are reasonable for the dates of service. As we have moved to the new fee-for-service rules over the past two years, it may be extremely difficult for the RESAs to provide the desired level of assurance regarding the reasonableness of the paid claims totals unless the remittances are being tracked by the fiscal year of the date of service. There were many claims for FY16 dates of service that had to be resubmitted during FY17 and some county boards are still behind on billing although all are attempting to submit their billing in a more timely manner.

Medicaid Legislative Update – SB 231

Senate Bill 231, which is effective July 1, 2017 was passed during the 2017 Legislative session and has been signed by the Governor. This legislation provides flexibility to county boards of education regarding billing for Medicaid services. The legislation states the following under WVC §18-2-5b:

> (b) The state board may delegate this provider status and subsequent reimbursement to regional education service agencies, county boards or both: *Provided*, That a county board is not required to seek reimbursement if it determines there is not a net benefit after consideration of costs and time involved with seeking the reimbursement for eligible services and that the billing process detracts from the educational program.

Additional detailed guidance will be forthcoming regarding this new legislation and the type of analysis that should be performed by a county board of education to determine if there is a net cost benefit for performing particular services.

From a quick, high-level guidance perspective until detailed guidance can be issued, this new legislation is not anticipated to result in county boards of education completely stopping billing for all Medicaid services. Even the county with the lowest determined Medicaid allowable cost on the FY15 cost settlement received approximately $33,000 for the year. Unless they paid more to the RESA to perform their billing services (which is unlikely) or had other costs that exceed their revenue (due to additional supplements paid to people who bill, etc.), it would be difficult to show that there was no net benefit to seeking the reimbursement. The most likely scenario, as presented to the Legislature, is that county boards of education will opt to stop billing for certain services types, such as TCM or Personal Care.

County boards of education are encouraged to not jump to conclusions based on the fee-for-service results for FY16 and FY17. Those are transition years and the ultimate Medicaid payments to the county boards are based on the cost settlement, not the reduced fee-for-service billing that is being experienced. The cost settlement process is so new that we don't have a good history to determine what level of funding a county can expect moving forward. <u>At a minimum</u>, county boards should wait until they have the FY16 cost settlement results before making a determination regarding what services, if any, they plan to stop billing moving forward.

Medicaid Billing – Potential Federal ACA Reform Impact

Under the bill that the federal House of Representatives passed to replace the Affordable Care Act (ACA), there are significant implications for Medicaid billing by school systems. According to the original NY Times article at the link below, there was a provision in the new American Health Care Act that would no longer require states to recognize schools as Medicaid providers. That portion of the article has now been removed and there is a correction note at the bottom of the article that indicates that while Medicaid funding for schools will be jeopardized under the bill, the bill does not specifically target schools.

https://mobile.nytimes.com/2017/05/03/us/politics/health-bill-medicaid-special-education-affordable-care-act.html?_r=0&referer=https://t.co/pP9gTrMh9G

Per the article, the legislation will result in $880 billion in cuts to the Medicaid program over 10 years and impose a "per capita cap" on funding for certain groups of people such as children and the elderly. This could potentially force schools to compete with hospitals, doctors, and other service providers for the limited Medicaid funding for children.

There are various national education advocacy groups lobbying against this change in Medicaid funding to limit the impact on school systems. Please keep in mind that the bill would also have to be passed by the Senate. OSF will keep an eye on any developments in this area.

PSSP Legislative Update – HB 2561

During the 2017 Legislative session, HB 2561 was passed by the Legislature and signed by the Governor. This legislation is effective 90 days from passage, which puts it after the beginning of the 2017-18 fiscal year (it passed on April 8, 2017). As a result, the provisions of HB 2561 which actually change the state aid funding calculations cannot be implemented until the 2018-19 calculations that will be performed in the upcoming year. However, the new flexibility allowed on how certain restricted state aid funds are expended will be in effect for the 2017-18 year once the legislation officially becomes effective in early July.

A detailed explanation of the changes made in HB 2561 is below:

- The calculation for Step 1 – Allowance for Professional Educators was modified to remove the language that limited the number of personnel funded to the number actually employed by the county and now funds county boards of education at set ratios. For county boards of education that employ less professional educators than the number funded, the allowance for those positions is based on the county's average state funded professional educator salary.

- The professional educator limits specified in code remain at the existing levels, but old statutory language from the phase-in of the changes made during the 2008 Legislative session was updated to make those limit amounts more clear.

- The professional instructional (PI) personnel requirements under Step 1 were changed from a certain number of PI required per thousand students in net enrollment to a required percentage of the lesser of the number of professional educators actually employed or the number of professional educators funded. The percentages were developed based on the existing PI requirements. For the 2017-18 year only, no county may be penalized for not meeting the required PI ratio.

- The calculation for Step 2 – Allowance for Service Personnel was modified to remove the language that limited the number of personnel funded to the number actually employed by the county and now funds county boards of education at set ratios. For county boards of education that employ less service personnel than the number funded, the allowance for those positions is based on the county's average state funded professional educator salary.

- The language regarding the calculation of the retirement allowance was updated to reflect the current calculation methodology. The statute was not updated previously when the professional student support personnel classification was created during the 2008 legislative session and the statute was not updated to reflect changes over time in the required contribution rates for the applicable retirement plans. The language now indicates that the allowance will be based on the average retirement contribution rate for each county board of education, which is based on the required employer contributions for state aid eligible employees participating in the applicable retirement plans.

- Language was added to the Step 4 – Allowance for Student Transportation provision that allows up to $200,000 of bus replacement funds per year to be used by a county for alternate purposes after submission of a request to the state superintendent. The request for approval must include the amount and intended use of the funds. The state superintendent must verify the serviceability of the bus fleet based upon the state school bus inspection defect rate of the county over the two prior years before approving the request from the county superintendent.

- The calculation for Step 6a – Current Expense was changed from being 10% of the salary allowances under Steps 1, 2, and 5 to a method that considers the actual operations and maintenance costs of the county boards, the square footage of the school buildings in each county, and student enrollment.
    - The non-salary related expenditures for operations and maintenance, exclusive of expenditures reported in special revenue funds, for the latest school year available for each county is divided by the total square footage of the school buildings in each county to calculate a state average expenditure per square foot for operations and maintenance.
    - The total square footage of school buildings in each county is divided by each county's net enrollment for school aid purposes is used to calculate a state average square footage per student.
    - Each county's net enrollment for school aid purposes is multiplied by the state average expenditure per square foot for operations and maintenance and multiplied by the state average square footage per student. This amount is then multiplied by 70.25% to determine the Step 6a allowance for each county.

    - For county boards of education that participate a multi-county vocational center (MCVC), the net enrollment numbers utilized in the Step 6a calculation are adjusted by the net enrollment of the students participating in the MCVC from each participating county. The MCVC net enrollment is subtracted from the sending county and added to the fiscal agent county so that the Step 6a funding for the MCVC facility is included in the Step 6a amount for the fiscal agent county.

- The percentage of Step 7a – Allowance for the Improvement of Instructional Programs funds allowed to be used for the employment of personnel was increased from 25% to 50%. The requirement to use a portion of the personnel funds for Technology Systems Specialists (TSS) was removed.

- A provision was added that allows up to 25% of the Step 7a funds to be used for alternative purposes. The amount of the allocation used for alternative purposes must be included and justified in the county's Step 7a plan.

- A provision was added that allows Step 7b - Allowance for the Improvement of Instructional Technology funds to be used for the employment of TSS positions essential for the technology systems of the schools of the county to be fully functional and readily available when needed by classroom teachers. The amount of the Step 7b allocation being used for the employment of TSS must be included and justified in the county's strategic technology learning plan. No limitation on what percentage of the funds can be used for TSS employment was included in the statute.

- A provision was added that allows up to 50% of the Step 7b funds to be used for alternative purposes. The amount of the allocation used for alternative purposes must be included and justified in the county's strategic technology learning plan.

- For the SBA funds needed to meet debt service requirements on revenue bonds issued prior to January 1, 1994, the statute was modified to make it clear that the funds will be paid by the West Virginia Department of Education into the School Building Capital Improvements Fund in accordance with the expenditure schedule approved by the State Budget Office.

- A new provision was added that requires the SBA to maintain a reserve fund (from their existing funding) of not less than $600,000 for the purpose of making emergency grants to financially distressed county boards to assistant them in making repairs or performing urgent maintenance to facilities or facility related equipment or facility related equipment replacement necessary to maintain the serviceability or structural integrity of school facilities currently in use or necessary for educating students of the county. A "financially distressed county" is defined as a county either in a deficit or on the most recently established watch list established by the West Virginia Department of Education of those county boards at-risk of becoming in a deficit.

The Office of School Finance is working with the various program offices within WVDE to incorporate the flexibility provisions of HB2561.

- For Step 7a, the changes needed to the Step 7a plan documents will be very limited. The amounts eligible to be used for personnel will simply increase and any amounts (up to 25%) used for alternative expenditures (such as current operating costs) should be set up as a separate project in the Step 7a plan so the amounts can be tracked accordingly. OSF is working with Joey Wiseman, Executive Director of Secondary Learning, on the Step 7a changes.

- For Step 7b, OSF is working with the Office of Technology Integration & Support to make changes to the online technology plan in WOW to develop a mechanism for county boards to request to use Step 7b funds for employing TSS or to use the funds for alternative purposes. The legislation requires justification for such expenditures to be included in the technology plan, which has not previously been used for such a purpose.

- For Bus Replacement funding, OSF is working with Mike Pickens, Executive Director of Student Transportation, to develop a mechanism to request the use of those funds for alternative purposes. Mike will be working on defining an acceptable "bus inspection defect rate" and we will assist with creating a request form to be submitted by the county superintendent when a county desires to use funds for such purposes.

We will work to have these new processes in place as quickly as possible, as we are aware that several counties have expressed interest in utilizing the new flexibility in their 2017-18 budgets. It is doubtful that all new processes will be in place before the original budgets are due at the end of May, but hopefully they can be in place in early June so they can be used in conjunction with the budget review process. If you need to utilize the new flexibility to balance your budget for 2017-18, go ahead and include the alternative spending in the original budget submission.

ESSA Requirement for School-Level Per Pupil Expenditure Reporting

Under the new Every Student Succeeds Act (ESSA), there is a requirement to report per-pupil expenditure data in the public report card at both the LEA level and the individual school level. The first year the data is required to be publicly report is the 2017-18 data by December 31, 2018. Federal and state/local spending must be differentiated in the reporting.

WVDE has joined a national group (sponsored initially by USDE with duties subsequently transferred to the CCSSO) called the Financial Transparency Work Group to work with other states to implement this new requirement. There are currently no federal regulations regarding this new requirement, so although we desire to be consistent and comparable with other states, there is nothing that requires us to do things exactly like other states.

West Virginia LEAs are ahead of many others around the country because we use a statewide chart of accounts with a location code field. From speaking with several LEAs, all salary costs and associated fringe benefits are already being recorded at the location code level. That is approximately 80% of the costs. While there are some costs that simply make no sense to record at the location level (central office expenditures, transportation, etc.), we will be working prior to July 1, 2017 to provide guidance on other costs that do need to be recorded at the location level by <u>all</u> districts. Although we do not have to be consistent with other states, we do need to be consistent within West Virginia with how costs are reported to the extent possible.

There may have to be some changes made to the chart of accounts to accommodate the new reporting requirements. Those will also be determined before July 1, 2017 so they can be in place at the beginning of the fiscal year.