



COMMONWEALTH of VIRGINIA

Department of Medical Assistance Services

PATRICK W FINNERTY
DIRECTOR

SUITE 1300
600 EAST BROAD STREET
RICHMOND, VA 23219
804/786-7933
800/343-0634 (TDD)
www.dmas.virginia.gov

October 14, 2005

Dear School Superintendent:

This is an update to the information regarding the need to change Medicaid financing and reimbursement for special education services. These changes were in response to issues raised by the federal Centers for Medicare and Medicaid Services (CMS) and subject to its approval. The target date for implementing new Medicaid financing and reimbursement for special education services is July 1, 2006.

After my March 31, 2005 letter, DOE helped DMAS to convene a workgroup of school financial and special education staff to consider alternatives. At that time, it seemed like we had two options and we wanted to incorporate school feedback. The workgroup met in April, May and June. At the end of the last meeting, it was apparent that we needed additional feedback from CMS about what they would approve. Over the summer, DMAS met by conference call three times with CMS and exchanged numerous emails. At the conclusion of this research, it became apparent that there was only one viable alternative.

Under the new financing and reimbursement policy that will be effective July 1, 2006, Medicaid will pay school divisions an "interim" rate for approved Medicaid claims. At the end of the school year, each school division will submit a cost report to DMAS. Final reimbursement will be based on the costs incurred by each school division. If there is an underpayment, DMAS will pay school divisions; if overpayment, school divisions will pay DMAS.

DMAS has already reported on these changes to the School Medicaid Financing and Reimbursement Workgroup and the Superintendent's Leadership Advisory Council. DMAS also will present the same information during the DMAS-DOE School Training this coming Monday, October 17, 2005 in Charlottesville, Virginia.

DMAS has presented a proposal authorizing these changes to be included in the Governor's budget to be submitted to the 2006 General Assembly. During the next few months, DMAS will work with DOE to develop a cost report and instructions to facilitate school compliance and to maximize reimbursement. The cost report and instructions,

October 14, 2005

Page two

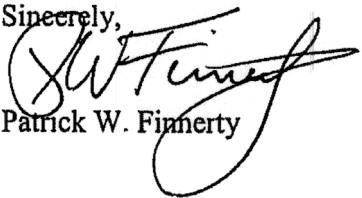
however, also will be subject to final approval by CMS. DMAS plans to have training on cost reporting sometime next year.

As noted in my earlier letters, there will be no change to the administrative claiming program, which DMAS implemented January 1, 2003. This program has directed an additional \$5 million to the 71 participating school divisions as well as brought another \$5 million in revenue to the Commonwealth. There is also no change to the termination of revenue maximization for DMAS. As a result, school divisions no longer have to return to DMAS half of the reimbursement in excess of the baseline. While the changes in financing and reimbursement creates uncertainty, in the long-term we will be laying a foundation to significantly increase revenue from Medicaid for special education services provided by Virginia schools.

DMAS is committed to working with DOE to continue to maximize the opportunity for revenue through Medicaid medical and administrative claiming to support special education services provided by school divisions.

If you have any questions or would like more information, please feel free to contact William Lessard at DMAS by phone at 804-225-4593 or by email at william.lessard@dmas.virginia.gov or Amy Edwards at DOE by phone at 804-692-0150 or by email at amy.edwards@doe.virginia.gov.

Sincerely,


Patrick W. Finnerty

PWF/wjl