

EXECUTIVE CHAMBERS

HONOLULU

June 20, 2002

COPY

STATEMENT OF OBJECTIONS TO SENATE BILL NO. 2867

Honorable Members
Twenty-First Legislature
State of Hawaii

Pursuant to Section 16 of Article III of the Constitution of the State of Hawaii, I am returning herewith, without my approval, Senate Bill No. 2867, entitled "A Bill for an Act Relating to Medicaid."

The purpose of Senate Bill No. 2867 is to prohibit the Department of Human Services (DHS) from submitting proposed amendments to the State Plan for Medical Assistance Programs (State Plan) to eliminate or diminish the DRI McGraw-Hill inflation component and return on equity program until the Legislature approves and fully funds a mandatory program to replace these factors.

The Med-QUEST Division of DHS administers the State's medical assistance program under Medicaid. Hawaii's State Plan contains a formula for payments to hospitals and long-term care facilities, which includes an inflationary factor known as the DRI McGraw-Hill inflation factor and a return on equity adjustment factor. These factors annually increase reimbursements to acute and long-term care facilities, but other Medicaid providers have not received increased reimbursement rates for many years because of a lack of state funds. The Med-QUEST Division has the flexibility to allocate its resources to address Medicaid shortfalls and ensure compliance with federal and state requirements, subject to approval by the Centers for Medicare and Medicaid Services of the United States Department of Health and Human Services. Accordingly, in an effort to reduce spending and control costs for nursing homes and hospitals, the Med-QUEST Division is in the process of amending the Hawaii Administrative Rules and the State Plan to reduce the amount of


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the automatic DRI McGraw-Hill inflation factor by fifty percent and to eliminate the return on equity adjustment.

In anticipation of these changes, the fiscal year 2002-2003 budget for the State's Medicaid fee for service program (which covers low-income individuals who are age 65, blind, or disabled) has already been reduced by \$2.6 million. This bill will prohibit DHS from submitting its planned amendments to the Centers for Medicare and Medicaid Services to reduce the DRI McGraw-Hill inflation component and eliminate the return on equity adjustment. However, this bill does not include appropriations to restore the reductions to the budget or to fund a mandatory program that brings reimbursements to providers closer to the actual cost of care. Therefore, if this bill became law, DHS would suffer a \$2.6 million shortfall in fiscal year 2002-2003.

For the foregoing reasons, I am returning Senate Bill No. 2867 without my approval.

Respectfully,


BENJAMIN J. CAYETANO
Governor of Hawaii

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P R O C L A M A T I O N

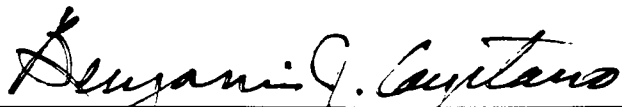
WHEREAS, under Section 16 of Article III of the Constitution of the State of Hawaii, the Governor is required to give notice, by a proclamation, of the Governor's plan to return with the Governor's objections any bill presented to the Governor less than ten days before adjournment sine die or presented to the Governor after adjournment sine die of the Legislature; and

WHEREAS, Senate Bill No. 2867, entitled "A Bill for an Act Relating to Medicaid," passed by the Legislature, was presented to the Governor within the aforementioned period; and

WHEREAS, Senate Bill No. 2867 is unacceptable to the Governor of the State of Hawaii;

NOW, THEREFORE, I, BENJAMIN J. CAYETANO, Governor of the State of Hawaii, do hereby issue this proclamation, pursuant to the provisions of Section 16 of Article III of the Constitution of the State of Hawaii, giving notice of my plan to return Senate Bill No. 2867 with my objections thereon to the Legislature as provided by said Section 16 of Article III of the Constitution.

DONE at the State Capitol, Honolulu,
State of Hawaii, this 20
day of June, 2002.



BENJAMIN J. CAYETANO
Governor of Hawaii