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MEMORANDUM

TO: Legislative Joint Fiscal Committee
CC: Harry Chen, Mark Larson, Jeb Spaulding, Robin Lunge
FROM: Steve Maier, Health Care Reform Manager, DVHA
DATE: September 5, 2014
RE: Report on Health Care Reinvestment Fund per 32 VSA Sec 10301(g)

This memorandum serves as a report on the State HIT Fund, for the SFY14 just ended and including a summary of all cumulative receipts and expenditures through June 30, 2014.

A year by year summary of the Fund's activity is included in a table below. You will note that it includes a SFY 14 year-end balance of \$6.26m in the Fund. This compares to the SFY 13 year-end balance of \$6.95m as reported last year. As reported in prior years and in other venues, because of the influx of significant federal resources over the last several years, we had been building a balance in the Fund, with an eye toward that day when federal resources begin to wane. As of this year, we have started to encounter a narrower focus of support from our federal partners and we are now in a period in which these funds will begin to be depleted.

HIT FUND			
SFY	Receipts	Expenditures	Balance
SFY'09	\$ 1,725,505.67	\$ 1,404,447.01	\$ 321,058.66
SFY'10	\$ 2,462,827.92	\$ 127,388.62	\$ 2,656,497.96
SFY'11	\$ 2,877,846.80	\$ 589,401.87	\$ 4,944,942.89
SFY'12	\$ 3,467,955.96	\$ 1,856,814.71	\$ 6,556,084.14
SFY'13	\$ 3,122,199.00	\$ 2,721,643.00	\$ 6,956,640.14
SFY'14	\$ 3,273,051.91	\$ 3,964,254.20*	\$ 6,265,437.59*
Total	\$ 16,929,387.26	\$ 10,663,949.41	
PROJECTED			
SFY'15	\$ 3,000,000.00	\$ 6,929,809.74*	\$ 2,335,627.85
SFY'16	\$ 3,000,000.00	\$ 5,700,000.00	\$ (364,372.15)
SFY'17	\$ 3,000,000.00	\$ 5,700,000.00	\$ (3,064,372.15)
SFY'18	\$ -	\$ 5,700,000.00	\$ (8,764,372.15)

*The SFY14 HIT fund balance is \$6,265,437.59. However, in addition to the expended funds in SFY14, \$1,185,950.22 has been encumbered in SFY15 to pay for SFY14 expenditures under the VITL operations grant and other small grant categories. Taking this into consideration, the cash balance available for SFY15 is \$5,079,497.37. The \$1,185,950.22 is SFY14 expenditures encumbered in SFY15 is reflected in the SFY15 projected expenditures figure in the above HIT Fund Table.

Most significantly, the State's Cooperative Agreement Grant from the Office of the National Coordinator (ONC) is depleted and was closed out in the SFY14. The ONC grant derived from the ARRA/HITECH Act and was specifically applied to Health Information Exchange activities. That grant was the primary source of State funding for Vermont Information Technology Leaders (VITL) for several fiscal years, through the grant agreement between DVHA and VITL. We have received approval for future federal financial participation for some HIT and related Health Information Exchange (HIE) expenses through a CMS "fair share" formula for HITECH expansion. However, multiple factors will require significantly more funding from the HIT fund. These include a more narrowed focus on what activities CMS will support, a less favorable match rate from CMS, and an increase in funding requirements from VITL.

The funding expected to be approved by CMS for their "fair share" contribution to HIE expenditures has decreased for Federal fiscal year 2015, and the Fund balance is now obligated to match that and to cover the balance of the VITL grant agreement, and other projected uses.

The graph in Figure 1 below shows the distribution of the **cumulative** HIT/ HIE expenditures supported by the HIT Fund for the SFYs 2009 through 2014, with the corresponding total expenditures including the leveraged federal financial participation, for the following projects/ initiatives:

- **EHR Incentive Program** – The HITECH Act supports the Electronic Health Record (EHR) Incentive Program, which states can choose to participate in by establishing a state-specific Medicaid incentive program for the adoption and meaningful use of this technology. Eligible hospitals and professionals who satisfy the criteria for attestation (meaning that they have met federal requirements) can receive significant incentive payments. Vermont's program is supported by 90/10 funding from CMS with the HIT Fund covering the 10% match for program software and operations. The incentive payments themselves are 100% Federal funds but are drawn down and paid out by the State. This program will run through 2021. To date this program (<http://hcr.vermont.gov/hit/ehrip>) has paid out approximately \$35,600,000 to Vermont and New Hampshire hospitals and professional providers, all of whom are registered Medicaid providers in Vermont. When the total incentive payments are considered on a per capital basis, Vermont's program is the second most successful in the nation.
- **Vermont Information Technology Leaders (VITL)** -- Vermont statute (18 V.S.A. §9352) designates VITL (<http://vitl.net>), a private non-profit corporation, as the exclusive statewide Health Information Exchange for Vermont. VITL has received State funding supporting their work since 2005, some of which in recent years has paid for the development and operation of the IT necessary to stand up the Vermont Health Information Exchange (VHIE). VITL contracts directly with an HIE vendor (Medicity - <http://www.medicity.com>) to provide the necessary services. Because of VITL's legislative authority and partnership status with the State, their funding is in the form of a grant which is renewed on an annual basis. Current funding is through a mix of federal (SMHP/ IAPD, GC) and State (HIT Fund) funding.
- **Blueprint HIT Infrastructure** – The Vermont Blueprint for Health has made HIT investments for several years to support the program's goals and requirements. The largest of these investments has been for the development and operation of a statewide clinical data registry. The current vendor for this registry is Covisint DocSite

(<http://www.covisint.com/web/guest/healthcare/physicians/enterprise>). This web based system supports individualized patient care with guideline based decision support. It also supports management of populations with flexible reporting that moves easily between groups of patients selected by specific criteria and their individual patient records. Flexible comparative effectiveness reporting is readily available across providers, practices, organizations, and health services areas.

- **VITL Regional Extension Center (REC)** – The ONC historically offered grants to entities establishing themselves as Regional Extension Centers (RECs) to help providers and practices select, implement, and attest for an EHR incentive payment from either the federal Medicare incentive program or the state Medicaid incentive program. VITL’s REC grant expired in February, 2014 but the State, through the HIT fund and the State Innovation Model (SIM) Grant, will be supporting the continuation of this team of specialists through various initiatives.
- **HIT Planning and Support Grants** – The State has provided a number of smaller grants for HIT planning and support services to:
 - agencies representing the State’s mental health, home health, and nursing home organizations
 - Bi-State Primary Care Association, in support of HIT services to FQHCs and other health centers across the State
 - Provider organization HIT support through small grants made available to each of the State’s Health Service Areas (HSAs)

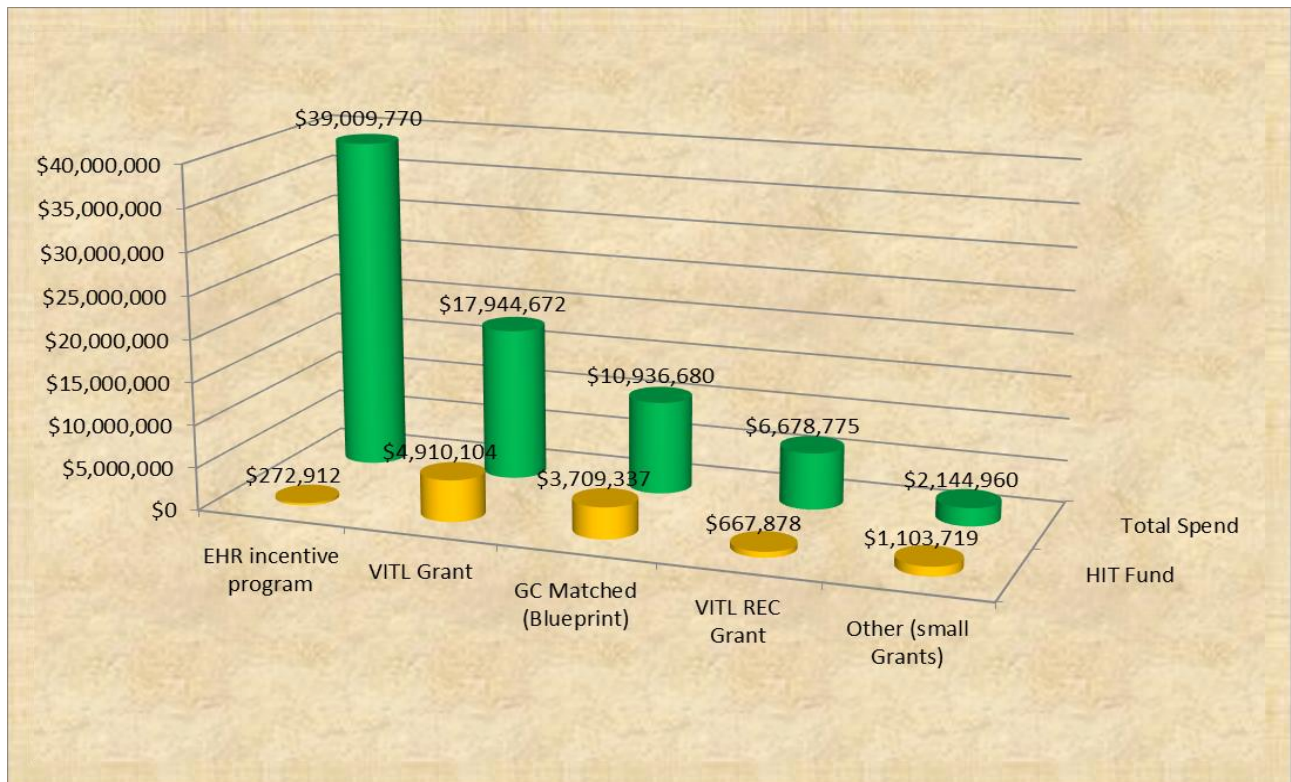


Figure 1: Cumulative HIT Fund and Total Expenditures by HIT Initiative

In total, since 2009 we have expended \$10,663,949 from the HIT Fund to support total spending of \$76,714,857.

The following graph shows a similar distribution of HIT Fund and total expenditures by initiative for just SFY14:

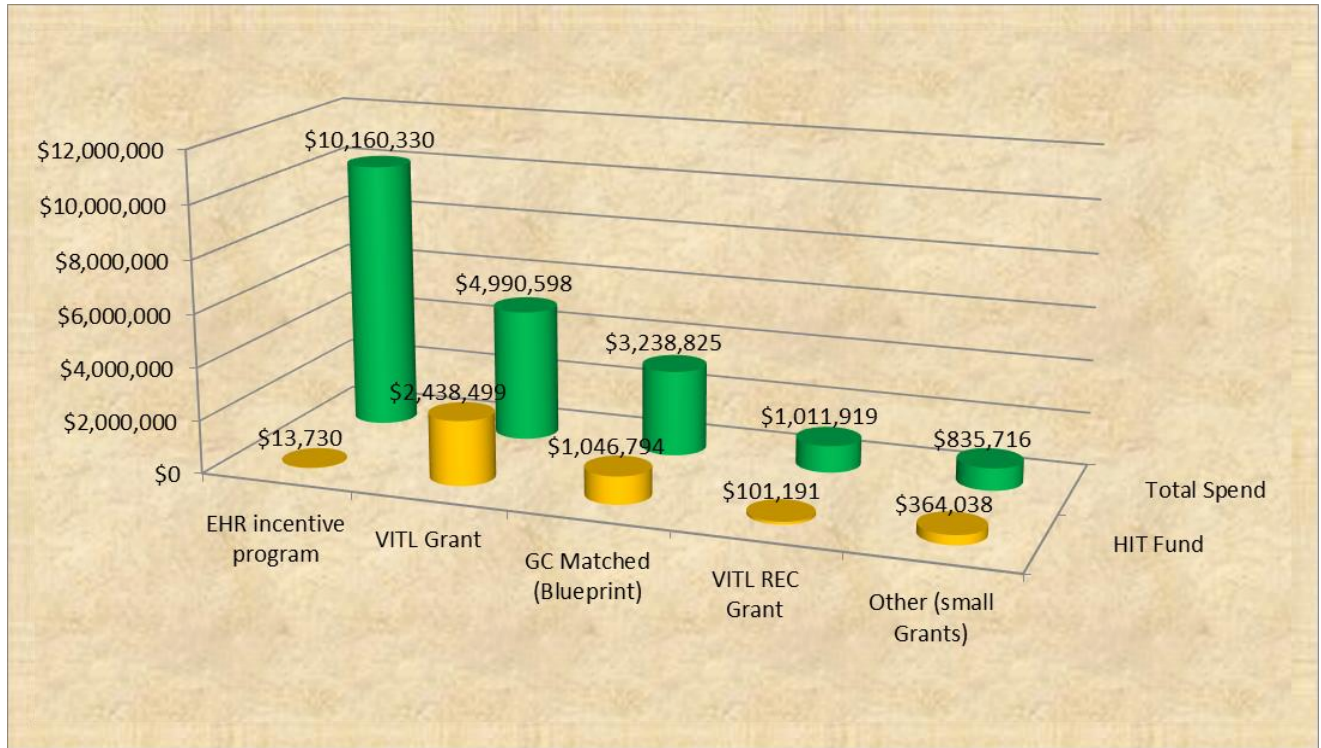
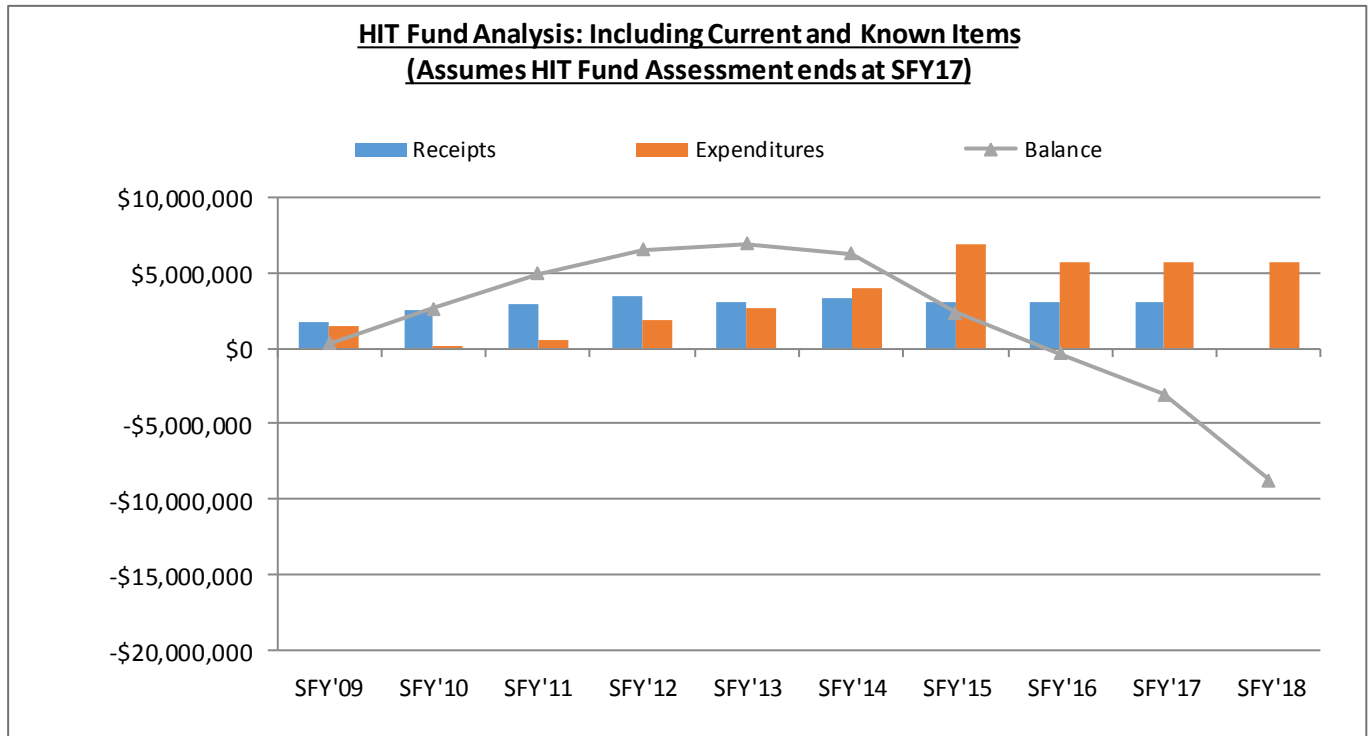


Figure 2: SFY14 HIT Fund and Total Expenditures by Initiative

In SFY 2014 we have expended \$3,964,254 from the HIT Fund for SFY14 to support total spending of \$20,237,388. As anticipated in previous years, the fund spending has exceeded fund income.

The following graph shows an anticipated deficit following the termination of the supporting claims tax in SFY17, as is called for in H.295 of the 2013 Legislative Session:



This graph reflects an effort to project the future HIT Fund balance under a general assumption that initiatives currently supported by the HIT Fund should continue to be supported. All data reflected in the graph through SFY14 are accurate, and SFY15 data reflect the current budget along with the SFY15 encumbered funds of \$1,185,950.22 to cover SFY14 expenses paid in SFY15, but all other future data represent a single set of assumptions. The point of the graph is that expenditures have exceeded receipts in SFY13 and the rate of expenditures has accelerated to create a more significant deficit. Assuming that the financial situation remains constant, the HIT Fund balance will likely be depleted within the next two years. The growing deficit following depletion of the fund and the termination of the claims tax is only one possible scenario, but it emphasizes the need to develop more accurate projections and explore expanded funding options.

For now, the HIT Fund is in a position to support State initiatives through SFY15 and 16. The State has successfully leveraged the HIT Fund to obtain additional matching funds in support of covered initiatives and to put stimulus funds in the form of incentive payments into the Vermont economy. All spending has been in alignment with the intended purpose of the Fund.

We are available to answer any questions you may have about the fund, and to provide additional explanations as needed, in writing or in person.