

May 2004

RECOMMENDATIONS FOR THE MAA FORECAST PROCESS: FINAL REPORT

Introduction

In April 2004, the Washington State Institute for Public Policy (Institute) was asked by the Department of Social and Health Services (DSHS), the Office of Financial Management (OFM), and legislative staff to review the Medical Assistance Administration (MAA) expenditure forecast process and to make recommendations on how to improve it. Our work during the first part of this assignment resulted in two documents:

- A Phase I report identified MAA forecast process options based on interviews with 25 individuals involved with the MAA forecast.
- A Phase II draft report provided recommendations for the MAA forecast process based on the Phase I report and DSHS, OFM, and legislative staff comments on the Phase I report options.

In our Phase II report, we recommended the creation of a formal workgroup process, transfer of expenditure forecast production responsibility to MAA, and a comprehensive timeline with defined roles and responsibilities. This report is the Phase III, or final, document in our MAA forecast review. It incorporates DSHS, OFM, and legislative staff comments and reactions to the Phase II draft report.

Based on the comments we received, our Phase II recommendation concerning a formalized workgroup has general acceptance. We did receive suggestions for clarification of some workgroup activities and a recommendation that responsibility for appointing the workgroup chair remain with the OFM director rather than shift to a vote of the workgroup after the 2003–2005 biennium.

Selection of the workgroup chair by the OFM director creates a high level of accountability for the functioning of the workgroup and is consistent with executive branch responsibility for forecast production. Therefore, the workgroup recommendations stated below are modified to indicate that the OFM director will appoint the workgroup chair for the current forecast cycle and retain this authority in the future. In other respects, the recommendations concerning a formal workgroup remain largely unchanged from the Phase II report.

We also received comments on other aspects of the Phase II report that caused us to modify our recommendations. The comments can be grouped into three areas: a) the timeline for forecast tasks and activities; b) difficulties with transferring the forecast responsibility from the DSHS Budget Division; and c) the possible future need for changes in the forecast process. Each of these areas will be discussed in detail, with accompanying recommendations reflecting staff comments.

I. Establish a Formal Workgroup

Our first recommendation is to establish a formal workgroup to oversee the production of the MAA consensus expenditure forecast. During the interviews we conducted, several changes were identified to make the workgroup process more efficient and to clarify roles and responsibilities. These include:

- Clearly defining roles to avoid ambiguity and identifying the appropriate tasks and duties of all parties.
- Prioritizing inquiries and analyses to improve forecast timeliness.
- Formalizing quality assurance and review processes.
- Designing the process to productively use the expertise of legislative and executive branch staff.
- Establishing a leadership function.

We believe these changes can be accomplished by creating a more formal workgroup process. To this end, we propose the following charter for the workgroup.

MAA Workgroup Membership and Operating Procedures

Purpose

The MAA forecast workgroup shall produce a consensus expenditure forecast of the MAA budget for use by the executive and legislative branches of Washington State. The primary activity of this workgroup is to produce annually a Fall forecast and a February update. During the interim, a subcommittee of the workgroup shall, as a group, monitor and investigate expenditure trends.

Membership

The workgroup shall consist of staff from each of the following institutions:

- *DSHS Budget Division*
- *DSHS MAA*
- *Senate Ways and Means Committee*
- *House Appropriations Committee*
- *OFM Forecasting Division*
- *OFM Budget Division*

Chair

The chair of the workgroup shall be appointed by the director of the Office of Financial Management. This individual will have technical expertise regarding the MAA expenditure forecast.

Operating Procedures

Workgroup discussions shall take place in an atmosphere of mutual respect. Workgroup members have an obligation to air their views and the chair will actively encourage discussion.

Formal voice votes, by the members listed above, shall be taken on each decision (or group of decisions), with majority rule. The workgroup shall develop rules regarding member attendance and circumstances (if any) under which members may designate substitutes or vote by proxy. Non-voting members may be invited to the meetings by workgroup members to provide additional expertise.

The workgroup will appoint one member to record decisions; the same person will serve in this role for the duration of a forecast cycle. The minutes shall contain sufficient detail to allow implementation of decisions to be translated into SAS code (when appropriate). After each meeting, the minutes shall be distributed promptly to all members.

The workgroup shall develop a mechanism to address members' issues and concerns.

The chair shall schedule one post-forecast meeting to review the forecast process and formulate suggestions for the next forecast cycle.

Forecast Scope

At the beginning of the annual forecast cycle, the workgroup shall establish the scope of the forecast. The scope of the forecast must provide sufficient specificity for budget and policy development. At the same time, the forecast must be limited to a level of detail that can be supported by the data.

The workgroup shall determine the specific category-service cells and mechanisms for developing step adjustments and adopt a schedule for completion of the forecast process. Additionally, the workgroup shall create a mechanism to prioritize requests for additional analysis.

For each of these activities, the following considerations shall guide decisions:

- *Potential impact on forecast accuracy*
- *Availability of necessary data*
- *Time, effort, and resources needed*
- *Alternative venues for analysis*

Subcommittees

Subcommittees may be established by the workgroup for particular tasks. The chair shall appoint members and define the purpose of each subcommittee and a schedule for completion of tasks.

One subcommittee shall be formed to monitor and investigate MAA expenditure trends. This subcommittee shall coordinate its activities with a recently formed DSHS fiscal monitoring group to avoid duplication of effort.

II. Forecast Timelines

The Forecast Process Activity matrix in the Phase II report includes explicit dates for forecast activities. We received comments indicating that choosing activity dates involves a trade-off between time to complete a task and data availability. Therefore, timeline decisions should be a workgroup decision.

Recommendation: Dates for completion of forecast activities shall be determined at the start of each forecast cycle by the formal workgroup defined in Section I of this report. This recommendation is indicated in the attached matrix of forecast responsibilities and tasks by the notation *TBD* (to be determined) in the “When” column.

III. Expenditure Forecast Responsibility for the 2004 Forecast

The Phase II draft report identified advantages and disadvantages of transferring forecast production responsibility from the DSHS Budget Division to MAA. Several staff comments indicated that a key disadvantage of this transfer had not been included in the Phase II report: the considerable difficulties in shifting expertise, personnel, and forecasting tools from one DSHS division to another in a very short time period.

Recognizing these difficulties and their potential to result in forecast delays and errors, we are modifying our recommendation to transfer forecast production responsibility to MAA.

Recommendation: For the 2004 forecast cycle, the MAA expenditure forecast production responsibility should remain with the DSHS Budget Division with leadership provided by the formal workgroup. Enhanced technical staff resources will be required to meet the needs of the forecast process. In addition to their participation in the formal workgroup, it is anticipated that MAA staff will take an active role in the step adjustment portion of the forecast process. This recommendation is depicted in the attached matrix of forecast responsibilities and tasks by indicating *DSHS*, rather than *MAA* or *DSHS Budget Division*, in the column representing forecast activity responsibilities.

IV. Expenditure Forecast Responsibility for Future Forecasts

We received some comments favoring our Phase II recommendation to transfer the forecast responsibility to MAA. These comments were generally based on a view that the current process is not functioning well and that a significant change in the forecast process was justified. As one individual pointed out, however, there is no “perfect fix” to some of the issues raised during the review process. In light of our revised recommendation to maintain the DSHS Budget Division’s responsibility for the 2004 forecast, we believe this issue should be reviewed periodically by the workgroup.

Recommendation: As part of the annual post-forecast review meeting, the workgroup shall discuss desired changes, if any, in the production responsibilities for the MAA expenditure forecast.

V. Matrix of Forecast Responsibilities and Tasks

The attached table contains a recommended list of forecast tasks, the entity responsible for those tasks, and a timeline. The table is based on forecast process matrices produced by DSHS (Budget Division and MAA) and by OFM.

The purpose of the matrix is to provide greater specificity concerning forecast roles and responsibilities and to highlight formalized documentation and review stages in the forecast process.

FORECAST PROCESS ACTIVITY	WHO	WHEN	COMMENTS
Define Structure/Pre-Primary Trend		TBD	
What cut-off dates are to be used?	Workgroup		Actuals through what date?
What is the composition of the forecast cells?	Workgroup		What level of detail provides the most accurate forecast? What level of detail is necessary? Do the accounting data support this choice?
What rule should be used to designate small cells?	Workgroup		For example, in 2003 the rule for small cells was <0.1% of total expenditures.
Review and identification of databases when there is more than one alternative.	Workgroup		Examples of databases with alternate versions include managed care splits and drug rebates; need to ensure everyone is using the same base.
Data cleaning.	DSHS		Adjustments, corrections of errors in historic data.
What will be incorporated into or removed from pre-primary trend?	Workgroup		
Vote on cut-off dates, forecast cell composition, small cell rule, identification of appropriate databases, pre-primary trend composition.	Workgroup		
Document decisions.	DSHS		
Review of distributed materials and decision-making.	Workgroup		Review decisions as recorded for consistency with workgroup intent.
Collection and distribution of data.	DSHS		Extraction of necessary data for baselines and distribution via Excel and SAS.
Primary Trend		TBD	
Separate cells into small cell set and manual review set.	DSHS		
Construct primary trend forecast for the small cell set.	DSHS		OFM Forecasting supplies model.
Produce and distribute options for manual review set.	DSHS		Forecasts of managed care split ratios and drug rebate ratio should be included.
Provide input on choices.	Workgroup		Workgroup comments, questions on choices to be distributed via e-mail to all workgroup members prior to meetings to vote on forecast options.
One or more meetings to vote on manual review forecast options.	Workgroup		
Document decisions.	DSHS		
Review of distributed materials and decision-making.	Workgroup		Review decisions as recorded for consistency with workgroup intent.
Distribute results via Excel and/or SAS code/dataset.	DSHS		

FORECAST PROCESS ACTIVITY	WHO	WHEN	COMMENTS
Step Adjustments		TBD	
What steps need to be added?	Workgroup		
Propose methodology for implementing steps and supply data to all participants.	DSHS		Data to be reusable—that is, baseline data able to accommodate updates to eligibles or the primary trend.
Agree to methodology for implementing steps.	Workgroup		Details sufficient to specify code—supplied in writing to MAA workgroup for review and documentation, and incorporated into code as comments.
Document methodology and circulate to workgroup.	DSHS		
Preliminary Total Funds Expenditure Forecast			
Use June Caseload Forecast Council (CFC) forecast of eligibles to write forecast code.	DSHS		Written to allow for the Fall CFC forecast of eligibles to be substituted when available.
Write code incorporating primary trend and step adjustment decisions.	DSHS		Parameters and data supplied to all participants via Excel; no hard coding.
Supply revised code to participants.	DSHS		Revised code and data tables should be supplied to all participants weekly.
Quality assurance review.	DSHS		
Preliminary Expenditures Review		TBD	
Run diagnostics and supply results to all participants.	OFM Forecasting		
Review and prioritize issues for investigation.	Workgroup		Code and data supplied earlier support the review.
Investigate and resolve issues.	DSHS and OFM Forecasting		Issues to be investigated in order of priorities established by workgroup and subject to time available.
Fund Splits		TBD	
Determine federal, non-federal shares by forecast cell.	DSHS		
Determine other fund splits (HSA, IGT/Local, etc.).	DSHS		
Produce share estimates for each cell and distribute results for review.	DSHS		
Review and prioritize issues for investigation.	Workgroup		
Investigate and resolve issues.	DSHS and OFM Forecasting		Issues to be investigated in order of priorities established by workgroup and subject to time available.

FORECAST PROCESS ACTIVITY	WHO	WHEN	COMMENTS
Construct Final Expenditures Forecast		TBD	
Replace June CFC eligibles forecast with Fall CFC forecast.	DSHS		
Review final results.	OFM Forecasting		
Adoption of final total expenditures forecast.	Workgroup		The goal is to reach consensus.
Allocate Expenditures (i.e. GF-state, federal, local, HSA)		TBD	Prepared by MAA, reviewed by workgroup
Distribute Forecast via Excel	DSHS	TBD	

Workgroup = staff from DSHS Budget and MAA, OFM Forecasting and Budget, House Appropriations, Senate Ways and Means.

APPENDIX: SUMMARY OF INTERVIEWS CONCERNING THE MEDICAL ASSISTANCE ADMINISTRATION EXPENDITURE FORECAST

I. Introduction

This section summarizes interviews conducted by the Washington State Institute for Public Policy (Institute) related to the Medical Assistance Administration (MAA) expenditure forecast process. Individuals to be interviewed were sent questionnaires concerning the forecast process. The questionnaire responses were used to identify and refine interview questions.

Institute staff spoke with 25 individuals who are involved with the Department of Social and Health Services' (DSHS) MAA budget and forecast process at the Office of Financial Management (OFM), House of Representatives, Senate, MAA, DSHS Budget Division, and the Caseload Forecast Council (CFC). All interviews were conducted on a confidential basis; this report does not use direct quotes or attribute comments to specific individuals.

Interview and questionnaire results are organized by topics that relate to key elements of the forecast. Given the interconnected nature of the forecast process, other ways to organize these comments were possible. In some cases, comments could have been logically placed under more than one topic area. All comments reflect the (paraphrased) views of one or more interviewees; largely similar comments made by multiple individuals are only listed once.

Important Note to the Reader

In this section, we have summarized the essence of all comments we received from the interviews and questionnaires. All comments are shown in italics, although they are not exact quotes.

The reader should not interpret any of these statements as Institute conclusions.

II. Consensus Forecast or Agency Forecast?

The most fundamental question concerning the MAA forecast process is whether it should produce a consensus forecast that will be used by all relevant executive and legislative entities, or an agency forecast developed solely for the use of DSHS (both the Budget Division and MAA). Among the individuals whose interview comments are summarized in this report, there is substantial but not universal support for a consensus forecast.

Institutionally, OFM, the House, and the Senate fully support a consensus forecast approach. Arguments in favor of a consensus forecast include the following:

- *A consensus forecast is key to spending limited legislative session time on policy issues and problem-solving rather than arguing about the size of the MAA budget.*
- *Active involvement by OFM and legislative staff in the forecast process creates confidence in and understanding of forecast results and assumptions so that they can be conveyed to policymakers.*
- *MAA, DSHS Budget Division, OFM, and legislative staff all bring considerable expertise to the forecast process, which can help to improve the forecast.*

- *A forecast representing only DSHS views is not helpful—the forecast needs to be one that OFM, DSHS, and legislative staff agree is the best estimate.*
- *Other successful consensus budget processes do exist (examples: K–12, DSHS–Aging and Adult Services Administration), although they are less complex than the MAA budget.*
- *A consensus approach is consistent with other actions taken in Washington (such as creation of the Economic Revenue and Forecast Council and Caseload Forecast Council).*

The DSHS–MAA also favors a consensus forecast, but expressed some concerns about a consensus-making process.

- *DSHS needs to be able to develop its own MAA budget of which the forecast is a major part.*
- *Some limitations are needed on the requests or options that can be requested as part of a consensus forecast process.*
- *However, a strictly DSHS forecast would result in too much MAA, DSHS Budget Division staff time being spent addressing OFM, legislative questions on methods, data, etc.*
- *Therefore, a collaborative process with full and open participation by all parties in forecast development is the most efficient approach.*

The institution with the largest concerns about a consensus forecast approach is the DSHS Budget Division, which currently has responsibility for the MAA forecast. While the Budget Division sees advantages to the consensus approach, they also identify a number of important drawbacks.

Pro:

- *A consensus process is fine if Budget Division staff are able to say “no” to information requests perceived as irrelevant to the forecast.*
- *The consequence of abandoning a consensus process is an increase in OFM, legislative questions about the forecast and more Budget Division staff time spent on answering those questions and arguments about whose budget is right.*

Con:

- *A consensus forecast process cannot really work given the short time frames under which the forecast must be created and delivered—at some point, the Budget Division must deliver a forecast even if consensus has not been reached.*
- *A conflict exists between a consensus process and producing the best forecast.*
- *The difficulties associated with a consensus process are only worthwhile if all parties use the forecast—because OFM and the legislature have changed supposedly consensus forecasts, there is no advantage to a consensus approach.*
- *Because DSHS is legally responsible for closing the fiscal year budget records, it needs to be able to produce the best possible forecast from their perspective—the forecast responsibility should be tied to responsibility for closing the accounting records.*

III. Forecast Scope and Purpose

The MAA forecast is used by a wide variety of executive and legislative branch staff for purposes ranging from producing the MAA budget to closing fiscal year accounting records. However, a lack of agreement and expectations about the appropriate scope and use of the forecast and the forecast process has led to institutional conflicts. The following is a list of key aspects of the forecast process and related information gained from interviews and questionnaires.

General Comments

- *The scope of the forecast keeps growing without any increase in DSHS resources to produce the forecast.*
- *Improving the forecast process requires deciding on what the forecast product needs to be—there is a lack of consensus on the forecast purpose and the relevant level of materiality.*
- *Senior House, Senate, and OFM staff need to identify the appropriate forecast product.*
- *Once the appropriate forecast scope is identified, the parties must prioritize forecast-related information requests for DSHS Budget Division given the tight timelines and limited resources.*

Budget Development

The forecast contains the vast majority of the MAA budget for contracted (non-administrative) services.

- *The forecast provides the basis for the MAA budget request and is used by MAA, OFM, and legislative staff to model policy options (e.g., change in health care service levels, program eligibility, vendor payments) throughout each legislative session.*
- *For explanatory purposes, DSHS, legislative, and OFM budget staff typically separate the change in the forecast relative to the previous budget into components such as mandatory caseload change, health service price and utilization change, federal matching rate changes, etc.*
- *OFM needs the Fall forecast by the end of October to develop the Governor's budget—the Fall 2003 forecast was delivered in mid-November and caused major problems for producing the Governor's budget.*
- *The forecast goal should be to produce the best MAA budget—the scope of the forecast has increased to include considerable analysis that is not relevant.*
- *The best overall forecast would be based on larger, more stable pieces of the MAA budget, but this approach does not provide the details needed to defend or explain the forecast.*
- *The “service detail by category” data developed for the forecast are necessary for producing policy options—it may be possible to streamline the forecast process but keep the data detail (e.g., forecasting all small cells as a single group).*

- *OFM and legislative staff have different interests in the forecast than DSHS—if the MAA forecast is wrong, it can have significant impacts on budget decisions for other agencies but has more of an indirect implication for DSHS programs.*
- *To support the Priorities of Government (POG) process, the forecast needs to provide detail at a budget unit level so that it can be translated into “activity” clusters.*

Budget Monitoring, Program Management, and Research

Access to detailed MAA program information is cited by several interviewees as important for tracking actual MAA expenditures compared with forecasted amounts and for identifying programmatic changes. However, there is some disagreement as to what entity should be responsible for providing these data and whether it should be part of the forecast process or through another method.

- *The data from the forecast process provide the only tool available to OFM and legislative staff to monitor the MAA program and to understand expenditure trends and developments.*
- *The forecast process is an important budget monitoring activity, enabling OFM and legislative staff to examine program activities in a structured manner.*
- *DSHS Budget Division staff involved in the forecast have limited time and resources to track programmatic changes.*
- *Budget monitoring functions are important but should be moved out of the forecasting process—they are not relevant to the forecast process and there is too little time to address monitoring questions in the forecast process.*
- *The forecast process is not the appropriate vehicle for program research, investigating data anomalies, or policy simulations.*
- *There appears to be a significant overlap in data needed to manage the program and data needed for the forecast—both functions need an understanding of the cost behavior of MAA program components.*
- *The focus on being able to compare forecasts over time prevents process changes that would make it easier to analyze data and manage the MAA budget.*
- *Monitoring reports that allow actual expenditures to be tracked against the budget as passed, rather than the forecast, are needed.*
- *Monitoring reports that track drug rebates, disproportionate share hospital, and ProShare expenditures would be helpful.*
- *Budget monitoring should be an MAA function—they need the information to manage the program and are in the best position to develop useful information for budget and policy purposes but there are no existing tools to provide monitoring and oversight data.*
- *MAA should be “pushed” to make budget monitoring data more available and accessible through regular reports.*
- *A budget monitoring workgroup with MAA, DSHS Budget Division, OFM, and legislative staff participation and chaired by MAA staff, could identify and prioritize questions and data anomalies identified through enhanced MAA reporting capabilities.*

- *If MAA could provide enhanced budget monitoring capabilities, it would take some pressure off the forecasting process and allow forecasts to be done at a higher level of detail.*
- *MAA and DSHS Budget Office need to coordinate activities to avoid redundancies between budget monitoring activities and forecast activities.*

Accounting

Because of lags in the billing of health care services, the fiscal year accounting records for the MAA budget are “closed” 12 to 18 months after the end of the fiscal year. The forecast is used to identify the necessary amount of reserves to pay for services incurred during the fiscal year but for which bills are received after the end of the fiscal year.

- *In the mid-1990s, reserved amounts tended to exceed what was necessary to close the budget—these excess reserves were identified and used for other purposes in the statewide budget.*
- *The lack of a reserve “cushion” increases the importance of an accurate forecast in determining the correct reserve amount—there are no excess funds from past years to offset a forecast error.*
- *Closing the MAA fiscal year budget has become more difficult over time.*

Advocacy Groups

Most advocacy groups have minimal interest in forecast details but desire forecast accuracy so that feasible program expansions can be correctly identified and program cuts can be minimized.

III. Workgroup Issues

The responsibility for producing the MAA forecast currently lies with the DSHS Budget Division. In practice, however, a workgroup comprised of House, Senate, OFM, MAA, and DSHS Budget Division staff is responsible for deciding key forecast assumptions. Many of the conflicts outlined above concerning the issue of a consensus forecast and the scope and purpose of the forecast are related to the differing needs and expectations of workgroup members.

General

- *The workgroup process is not designed to meet all participant expectations—this leads to conflict.*
- *Senior House, Senate, and OFM staff need to determine appropriate workgroup expectations and “ground rules.”*

Roles and Responsibilities

- *Need to clearly define who is responsible for the different parts of the forecast, such as creating step adjustment estimates, participation in discussions, production of workgroup materials, forecast review, forecast delivery, etc.*
- *Defining roles and responsibilities will clarify whom to contact with questions and who is responsible for errors—this will improve the consistency of the forecast process.*
- *Need to clearly define a feedback process for incorporating workgroup comments into primary trend forecasts.*
- *For the workgroup process to succeed, it needs effective group leadership, project management skills, commitment to collaboration, and continuous quality improvement.*
- *Responsibility for the primary trend forecast should include a commitment to convene a post-forecast workgroup discussion of what went well and how the process could be improved.*
- *Greater involvement by program staff with front-line knowledge is desirable, especially regarding the primary trend forecast.*
- *It is important to identify who is responsible for getting MAA-related information to policymakers and to acknowledge that not all of those responsibilities should fall on the DSHS Budget Division.*
- *The institutions involved in the workgroup process must be willing to take on their assigned roles and responsibilities or the process cannot be fixed.*

Data Analysis and Investigation

- *Given time and resource limitations, there should be some process to limit workgroup discussions.*
- *There is no restraint on workgroup questions—when DSHS Budget Division staff state that an issue is unnecessary or irrelevant, workgroup members still insist on obtaining detailed information.*
- *Need to prioritize issues by dollar amount involved, by what can or cannot be fixed, by whether data to address the issue exist.*
- *Workgroup participants need to understand that investigating issues with dollar amounts smaller than forecast or data measurement errors will not improve forecast accuracy.*
- *All participants must exercise discretion in how information gained through the workgroup process is used.*

Quality Assurance/Review

- *Workgroup participants need time to review the draft primary trend roll-up.*
- *A process is needed to ensure that identified problems are incorporated into the final forecast.*

- *The staff producing the forecast need to perform some minimal review to ensure that both individual forecast options and the overall forecast is consistent with what would be expected.*
- *OFM Forecasting has had the responsibility to review the full forecast, but this should be expanded to include all workgroup participants—expanded review would better identify which items need to be fixed and which have minimal budget impact and do not need to be fixed.*

Documentation/Communication

- *Need to document changes from one version of forecast to next to avoid confusion, unnecessary work.*
- *Formalize documentation and discussion of the forecast process—the current approach using e-mail discussions is unstructured and sometimes includes only a subset of workgroup participants.*
- *Distribute primary trend forecast options (at least for the most costly forecast cells) in Excel to enable workgroup participants to analyze the underlying data.*
- *Document workgroup discussions about steps estimates to ensure that SAS code reflects workgroup decisions.*
- *Documentation should be written and discussed before any SAS code modifications occur.*

Workgroup Structure

- *OFM needs to play a stronger role in leading/facilitating the workgroup.*
- *The workgroup process should be designed to meet institutional needs.*
- *Formalizing the workgroup organization by creating a chair and using parliamentary procedure would improve the process.*
- *Formalizing roles and responsibilities is key to improving the workgroup process, not creating a chair or using parliamentary procedure.*
- *A workgroup chair must have the responsibility and authority to enforce the workgroup process roles, responsibilities, and priorities.*

Impact of the Caseload Forecast Council

- *The CFC process has less forecast detail than the MAA expenditure forecast, enabling CFC workgroups to go into greater detail and to receive more analysis—this has increased expectations about the availability of detail and analysis in the MAA expenditure forecast.*

IV. Institutional Issues

Differences of opinion regarding many aspects of the forecast are at least partially related to conflicting institutional purposes and goals. This section summarizes some of the institutional conflicts discussed by interviewees.

DSHS Budget Division

- *Budget Division forecasting staff have decreased from 12 FTEs seven years ago to 6.5 FTEs now—they have less capacity to provide services to OFM and legislative staff.*
- *Forecasting resources within the Budget Division are similar to historical levels although skill levels may not be.*
- *There is some support for increasing Budget Division FTEs for forecast purposes—more staff are needed, but staffing is not the only forecast issue.*
- *Loss of staff and skills, frustration with the forecasting process by DSHS Budget Division are all problems—this has contributed to reduced willingness to answer workgroup questions.*
- *The Budget Division role has changed—they are less willing to answer OFM, legislative staff questions than in the past, will not respond to questions if they do not feel the requested information is necessary.*
- *The Budget Division treats the Governor's budget as a placeholder and does not make an effort to get best forecast possible in the Fall because there is time to fix errors for the legislative budget.*
- *The Budget Division is not comfortable with OFM or legislative staff involvement in the forecast process.*
- *The Budget Division does not see OFM or the legislature as customers.*

DSHS Medical Assistance Administration

- *MAA tensions with DSHS Budget Division may be due to MAA desire to have greater control over its own budget.*
- *MAA has stronger relationships with OFM and legislative staff than other DSHS agencies—DSHS Budget Division may feel left “out of the loop” when OFM or legislative staff take questions directly to MAA rather than going through the Budget Division.*

Legislature

- *Considerable time is spent answering legislative staff questions, whether relevant to forecast process or not, for fear of the consequences of antagonizing legislative staff.*
- *Legislative staff have too dominant a role in the forecast process.*

OFM

- *Institutionally, OFM acts more like a cop than a facilitator—they seem more interested in finding problems with the forecast than in helping agencies function better.*

Caseload Forecast Council

- *The CFC is perceived as not having a sufficient understanding of DSHS programs and relies on DSHS program staff to explain issues—this has led to caseload forecasts based on incorrect assumptions.*
- *There is an interaction between caseload and per capita forecasts but the delineation between CFC and DSHS Budget Division responsibilities is unclear.*

V. Responsibility for Producing the Forecast

Currently, the DSHS Budget Division has the responsibility for producing the MAA expenditure forecast. The issue of transferring this responsibility to another entity came up in a number of interviews.

General

- *Fixing the current forecast process and leaving it in the DSHS Budget Division is more likely to result in improvements than moving it elsewhere.*
- *The DSHS Budget Division is a natural collecting point for MAA data—this makes it the right place for the forecast although more or different staff may be needed.*
- *Moving the forecast will require shifting or adding staff and establishing access to MAA data—these issues need to be addressed before transferring the forecast responsibility.*
- *DSHS actions may impact the MAA budget, so DSHS can and should be more responsible for explaining forecast changes.*
- *There are some forecast issues that need to be resolved regardless of where it is produced.*
- *The key is a quality forecast produced by good staff—where this occurs is less important.*

Transfer to MAA Division of Business and Finance

- *Transferring the forecast to MAA would require additional MAA staff with programming skills and knowledge of the forecast process.*
- *Giving MAA forecast responsibility creates the potential for a conflict of interest.*
- *The potential for conflicts of interest are similar in both MAA and DSHS Budget Division—both have similar incentives for the forecast to be high.*
- *Maintain the primary trend forecast in the DSHS Budget Division but give responsibility for step adjustment estimates to MAA (to varying degrees, MAA has had the responsibility to estimate steps in the past—see the discussion under Forecast Components and Technical Issues below for more on this).*
- *Moving the forecast to MAA is logical because MAA staff have the most extensive knowledge of the program and what is changing that will impact the forecast.*

- *If the forecast was transferred to MAA, DSHS Budget Division staff should still be involved in the forecast process.*
- *MAA is in the best position to coordinate production of data for budget monitoring and forecasting needs.*

Transfer to DSHS—Research and Data Analysis

- *RDA has the staff and skills to produce the forecast.*
- *RDA is not the right place to have the forecast done.*

Transfer to OFM

- *OFM is not in the position of managing the MAA budget and is therefore not a good choice for forecast responsibility.*
- *Transferring the forecast to OFM is a possibility but more staff would be needed.*
- *OFM could expand its forecast involvement or possibly take full responsibility, but it is unclear if this is consistent with legislative desires.*
- *OFM has a key role in providing forecast oversight and quality assurance.*

Transfer to Caseload Forecast Council

- *Transferring the forecast to CFC would result in a deterioration of access to MAA data and program knowledge.*
- *Having an independent entity like CFC produce what amounts to the MAA budget is not appropriate.*

Transfer to Actuarial or Consulting Firm

- *Contracting the forecast out to an actuarial firm would add substantial health care knowledge to the forecast and is consistent with the approach taken by commercial insurers.*
- *Contracting the forecast out results in state government losing important forecasting knowledge and ability—as a key budget tool, this knowledge and ability should remain within DSHS.*

VI. Forecast Components and Technical Issues

A number of comments related to forecast methodology and data are summarized here. Interviewee opinions on these technical subjects are often strongly related to issues discussed above and so cannot necessarily be implemented on their own.

Lag Factors

- *Different services do have different lag factors—MAA has been researching the potential to develop service-specific lag factors that could be incorporated into the forecast process.*

- *Using service-specific lag factors and potentially including more recent data for some services would require a forecast based on services rather than one based on eligibility categories.*
- *The desire to use the most recent possible data compresses the time frame available for the forecast.*
- *The new MMIS system (to be up and running no later than January 2006) will have an automated capability to produce lag factors by forecast cell—this capability should be tested during the reprocurement process.*
- *Technically valid changes to lag factors or accounting systems that enable the use of more recent data would improve forecast quality.*
- *Is it possible to examine lags based on claims received rather than on claims fully adjudicated and paid? This is worth investigating because it could reduce lags by one to two months.*

Data Issues

- *MAA data are much more complex than in other budget areas—this is a major forecast issue.*
- *Data detail is lost in the process of creating accounting files from claims data—this means some data anomalies or questions cannot be answered.*
- *Information on national trends, commercial health plan experience should be part of the primary trend forecast process.*
- *MAA is working to produce their accounting files at the same level of detail (i.e., the level of detail in AFRS) required for the forecast—this would avoid a data manipulation step DSHS Budget Division staff must now make prior to the forecast.*
- *Addressing data anomalies on a more frequent basis before the forecast process starts could help to resolve data issues, make the forecast more efficient, and reduce the burden on the forecast process.*
- *It is critical that MAA and DSHS Budget Division staff have input into MMIS reprocurement to ensure that data needed for forecasting, budget monitoring, and program management will be available.*
- *All parties must be using consistent data to avoid time spent on data reconciliation issues—the new MMIS will help with this.*
- *A new MMIS is likely to produce data which are not comparable to historic MAA data.*

Primary Trend

- *The primary trend contains too many cells—this has occurred in an attempt to meet all possible workgroup needs, but forecasting very small dollar amount cells decreases overall forecast accuracy.*
- *Recently, managed care cells have been disaggregated—although there are some “forecastable” issues in managed care (maternity carve-outs, eligibles who opt out of managed care, etc.), this is largely premium-driven and should not be part of the forecast.*

- *Aggregating stable forecast cells, disaggregating unstable cells could improve forecast accuracy.*
- *Too much staff and workgroup time is spent on small forecast cells—the time-series forecast approach devised by OFM to forecast a total for all small cells should be used.*
- *Currently, forecasting the growth rate for each forecast cell is independent of all other cells—this ignores trends in health care practice patterns (e.g., substitution of outpatient procedures for inpatient procedures).*
- *Decomposing per capita cost trends into price and utilization components, at least for the largest cells, would be very helpful in understanding trends and could improve forecast accuracy.*
- *The capability to analyze expenditure trends for optional eligibility versus mandatory eligibility groups would be helpful.*
- *There is huge pressure to agree on primary trend forecasts in a very short time period—more time is needed to examine graphs and to get feedback from MAA program staff.*
- *The primary trend forecast is based on the premise that historical trends will generally continue and that the workgroup can successfully identify any deviations from historic trends without any outside information—this is not a sound forecasting technique.*
- *An outside consultant should be brought in to examine the appropriate level of forecast detail, the potential for developing explanatory forecasting models that use economic and demographic variables, and the validity of forecast assumptions in high cost areas.*

Step Adjustments

- *The majority of forecast effort and time is in the steps estimates.*
- *MAA has generally been involved in step estimates in last five years but has not always done a good job—this has frustrated DSHS Budget Division staff.*
- *Increased MAA roles in step estimates for the Fall 2003 forecast improved the forecast process and product.*
- *Given their program knowledge, MAA staff should have primary responsibility for step estimates, but they need training in how to coordinate with DSHS Budget Division staff and to provide the step estimates in a manner that is most useful for the forecast.*
- *Need to identify how long steps should be tracked—the longer they are tracked, the greater the complication added to the forecast process but with potentially little real information.*
- *Less time should be spent on small dollar amount step estimates, especially when the estimates are based on inexact data or knowledge.*

Disproportionate Share Hospital (DSH), ProShare, Trauma, Drug Rebates

- *DSH, ProShare, and trauma do not lend themselves to forecasting—they should be removed from the forecast, calculated after the fact, and presented as individual decision packages.*
- *DSH, ProShare, and trauma are included in the forecast for convenience and comparability with past forecasts but could be removed from the forecast process.*

- *Because DSH funds are used to pay for GA-U inpatient hospital services, retaining DSH in the forecast means that GA-U inpatient expenditures cannot really be forecast.*
- *Drug rebates are a fixed fraction of drug expenses and could also be removed from the forecast.*
- *Drug rebates vary with volume and thus need to remain in the forecast.*

Fund Splits

- *Estimating fund splits is becoming more complicated over time—balancing fund sources, not the total forecast amount, was the biggest problem in the Fall 2003 forecast.*
- *Total expenditures should be forecast first, with all fund splits applied at the end of the process.*
- *DSHS Budget Division does fund splits as part of the forecast process for reasons of convenience, but this responsibility could be shifted to MAA.*
- *Fund splits are critical but are not easy or straightforward—the forecast should be done by source of funds.*
- *Forecasting by fund source amounts to trying to forecast accounting changes, which have no relationship to MAA expenditure drivers.*
- *Fund splits by fiscal year, either as part of the forecast or a companion product, are a needed part of the forecast process.*

SAS Code

- *DSHS Budget Division has hired a consultant to assess, simplify, and modularize the forecast SAS code—he will also be involved in automating data manipulation, improving other DSHS forecasting processes, and report design.*
- *The SAS code is not an issue—it does need to be improved, but that is not relevant to fixing the forecast process.*
- *The SAS code needs to be more efficient to improve the MAA expenditure forecast but not to respond to all possible data requests.*
- *The SAS code used for the forecast was originally developed by a high level programmer—the code is very sophisticated and hard to maintain, so that over time the forecast process has become increasingly less automated.*
- *The current effort to update/streamline SAS code will not be successful if DSHS Budget Division staff are not able to effectively use and maintain the code.*
- *The consultant updating the SAS code must both streamline it and create rules for implementing the steps estimates.*
- *The consultant updating the SAS code should attend workgroup meetings to better understand the forecast issues being raised.*
- *The SAS code needs to be available to workgroup members for quality assurance purposes and to ensure the code is being maintained correctly.*
- *The SAS code too often dictates the forecast process rather than the other way around.*

- *The SAS code needs to be designed so that DSHS Budget Division staff can readily translate policy and budget discussions with MAA staff into code.*
- *The current SAS code is a “black box”—it is difficult to track errors or respond to questions and leads to concerns about accuracy of the entire forecast.*
- *There are concerns about how changes to the SAS code will impact the forecast—will there be a process to compare forecasts done under the “old” and “new” code?*

February Forecast Update

- *Because the CFC provides three forecasts per year, this has put pressure on the DSHS Budget Division to provide forecast updates; this is difficult because the MAA forecast process typically takes six months, so updates are feasible only if they focus on a subset of forecast cells.*
- *Rules need to be developed to determine which parts of the forecast will be updated—a balanced look at areas going up and down is needed.*
- *Having the February expenditure forecast update available at the same time as the CFC February caseload forecast has been very helpful.*
- *The forecast update needs to be available by mid-February so that it can be included in legislative budgets.*
- *The existence of a February update cannot be a reason for not making corrections to the Fall forecast.*
- *The February 2004 update did not occur because data files needed for the forecast had not been updated and the lack of data was noticed too late to produce a forecast—a process must be established to check on data availability sooner so that February updates are produced.*

Forecast Accuracy

- *The perception of forecast errors is out of proportion to actual errors—some items identified as “errors” may be misunderstandings on the part of workgroup members.*
- *There is a sense that DSHS Budget Division staff do not check for errors—this may be due to the short time frame for the forecast.*
- *Identified errors in the Fall 2003 forecast were not corrected.*
- *The quality of the forecast is good—errors are not in the total forecast but in details like fund splits or specific services.*
- *Although forecast errors are large in absolute terms, they are generally one percent or less of total expenditures—the likelihood of reducing the forecast error below this level is small and efforts to do so may actually increase forecast errors.*
- *There is an inherent conflict resulting from the fact that reasonable MAA forecast errors of one percent or less are equal to a dollar amount that is very large relative to other budget areas.*
- *The “opportunity cost” of forecast errors must be emphasized—although entitlements must be paid for, MAA forecast errors may preclude policy decisions in other areas or lead to budget cuts.*

- *Forecast errors in details used to develop policy options are problematic.*
- *Even small errors are a problem when they are very obvious errors—they call the validity of the entire forecast into question.*
- *If the forecast has errors, it is less useful for budget monitoring.*

Forecast Comparability

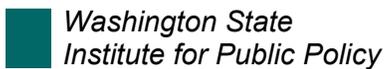
- *The forecast needs to be updated over time as program changes occur—the need for forecast updates needs to be balanced with the need for comparability with past forecasts.*
- *The Fall 2003 forecast calculated per capita values using only fee-for-service eligibles instead of all eligibles (fee-for-service and managed care) as in the past—this meant many of the forecast cells were not comparable to past forecasts.*

Simplification/Modification of Forecast Process

- *A forecast by eligibility category and major service is the bare minimum needed to develop policy and budget options.*
- *Forecast simplification efforts must still provide sufficient detail to meet policy goals and explain why MAA expenditures are up or down.*
- *The simplification proposal developed by the DSHS Budget Division would produce an efficient high-level forecast but would lack the level of detail needed by OFM and legislative staff.*
- *OFM was unwilling to consider a DSHS Budget Division proposal to simplify the forecast process by focusing on total expenditures by service.*
- *DSHS Budget Division attempts to learn about private sector health care forecasting techniques that might improve the MAA forecast were not well received.*
- *The budget, forecasting, and allotment processes leave no downtime for MAA, DSHS Budget Division, or OFM, so there is no opportunity to examine past processes and identify areas for improvement—an outside consultant or special assistant to the DSHS secretary is needed to be in charge of forecast quality improvement.*
- *Proposals for forecast modifications or improvements need to be presented well in advance of the forecast start date to provide time to determine feasibility, effort required, comparability issues, etc.*

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