



OFFICE OF THE COMPTROLLER
STATE OF ILLINOIS

Susana A. Mendoza
COMPTROLLER

February 13, 2018

Mr. Michael Hoffman
Acting Director, Central Management Services
401 So. Spring, Rm. 715 Stratton Building
Springfield, Illinois 62706

Dear Director Hoffman,

The Office of the Comptroller (IOC) is in receipt of correspondence regarding CMS's position of insisting late payment interest penalty payments be paid before outstanding direct payments to healthcare providers under the Group Health Insurance Program. While the IOC believes that the late payment interest penalties must eventually be paid and we further recognize the role of third-party lenders in maintaining continuity in state government operations as long as we are challenged by significant bill payment backlogs, we are concerned with the requested prioritization of these late payment interest penalties.

The IOC is asking CMS to reverse its policy position and send over the necessary vouchers so healthcare payments can be processed from the \$404.5 million in available funds without further delay.

As you are aware, the IOC collaborates with CMS staff on an ongoing basis to coordinate General Revenue Fund (GRF) transfers into the Health Insurance Reserve Fund (HIRF) that provide for subsequent payments for obligations under the Group Insurance Health Program.

The IOC has been very supportive of making payments to the state's group health insurance providers. When program liabilities reached their peak of \$5.3 billion in November 2017, the office applied \$4 billion of the \$6 billion in general obligation bond proceeds to the principal obligations under the Group Insurance program. This action, in our estimation, forestalled hundreds of millions of dollars in additional late payment interest penalties from also accruing. In fact, \$2.3 billion of this \$4 billion went to third party lenders participating in vendor payment assistance programs administered by your office. As you know, the Group Insurance program had as of the end of January outstanding liabilities remaining in excess of \$1.7 billion. Combining this with the reported \$500 million in pending late payment interest penalty

payments, this program represents the single largest component of the state's current bill backlog that now exceeds \$8 billion.

In December and January, the IOC transferred \$240 million from GRF into HIRF, the balance of which now exceeds \$400 million, anticipating that additional principal health care costs could be paid with these monies and potentially save additional substantial sums in ongoing late payment interest penalty charges. Despite our repeated requests to apply these funds toward the principal payments owed to healthcare providers, limited payment requests aside from those for late payment interest penalty payments were sent over in January. This office is concerned with CMS's intention to not submit healthcare provider bills until the IOC first pays interest on bills already paid. This position essentially would direct the IOC to prioritize late payment interest penalty payments, directed primarily toward third-party lenders, over the remaining interest generating healthcare bills.

Further, your correspondence also asks the IOC to prioritize higher-rate late payment interest penalties rather than lower-rate interest penalties, though the latter have a more statutorily supportable claim to be addressed.

The latest Debt Transparency Act Report, released February 13, 2018, identifies that the state still has approximately \$946 million in late payment interest penalties spread across all agencies as part of the state's bill backlog. The state will never be able to address that backlog in a responsible manner if we don't utilize the most effective and common-sense cash management strategies available to us.

The practice of prioritizing and paying accumulated group insurance bills that would otherwise generate additional late payment interest penalty charges of 9% to 12% annually versus first paying down related but separate interest charges *that themselves do not generate any additional late payment interest penalties*, seems the more prudent fiscal course of action given the circumstances and during this time of uncertainty regarding state finances.

While the IOC again acknowledges that late payment interest penalty obligations of both categories will need to be made as soon as feasible, the fiscal practice that your agency is supporting would result in increasing late payment interest penalties rather than the opposite. The IOC does not believe it is in the best interest of the state and taxpayers to allow more than \$400 million in HIRF funds to remain stagnate while the state is facing other critical obligations from a backlog in excess of \$8 billion.


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Lastly, our office invites you to join us as we advocate in the current legislative session for greater transparency of these third-party programs, including disclosure of beneficiaries and trust holders, and enhanced regulation under statute versus rule making of all vendor assistance programs currently under CMS purview.

We again ask that CMS immediately reconsider its position. We look forward to hearing from you on these critical issues as soon as possible.

Sincerely,



Kevin Schoeben
Assistant Comptroller

Cc: Hans Zigmund, Director of the Governor's Office of Management & Budget