

Generic Supporting Statement
Section 1115 Demonstration: Budget Neutrality Monitoring Workbook
CMS-10398 #56, OMB 0938-1148

This September 2025 iteration is being submitted to OMB as a revised generic collection of information request.

The contents of this Supporting Statement and the associated attachments have been reviewed to ensure that they are consistent with the Trump administration’s policies, goals, and objectives.

Please note that our active collection is entitled, “Section 1115 Demonstration: Budget Neutrality Workbook” and that we are revising the title (as indicated above) to clarify the intention and function of this workbook and to clearly differentiate this workbook from a Budget Neutrality Formulation Workbook, which serves a different purpose.

A. Background

Section 1115 Medicaid Demonstration Projects

Under section 1115(a) of the Social Security Act (hereinafter, “the Act”), the Secretary of Health and Human Services (“Secretary”) may authorize a state to conduct experimental, pilot, or demonstration projects that, in the judgment of the Secretary, promote the objectives of title XIX of the Act. The Secretary (1) may, under section 1115(a)(1), waive provisions in section 1902 of the Act; and/or (2) may, under section 1115(a)(2)(A), authorize federal matching funds for state expenditures that would not otherwise be matchable (i.e., expenditure authority) under section 1903 of the Act. Section 1902, “State Plans for Medical Assistance”, of the Act lists what elements the Medicaid state plan must include, such as provisions relating to eligibility, beneficiary protections, benefits and services and cost sharing. Section 1903, “Payments to States,” describes expenditures that may be “matched” with federal title XIX dollars, allowable sources of non-federal share, and managed care requirements.

Budget Neutrality Overview

Consistent with longstanding policy, CMS will not approve a demonstration project under section 1115(a) of the Act unless the project is expected to be budget neutral to the federal government. A budget neutral demonstration project will not result in Medicaid costs to the federal government that are greater than what the federal government’s Medicaid costs could have been absent the demonstration. The overarching goal of CMS’ budget neutrality policy is, therefore, to limit federal fiscal exposure resulting from the use of section 1115(a) authority in Medicaid.

Furthermore, to evaluate and assure budget neutrality, CMS subjects each demonstration to a budget neutrality test, which results in limits that are placed on the amount of federal Medicaid funding the state may receive over the life of the demonstration approval.

The characteristics of the budget neutrality test for each demonstration project are determined as part of CMS and state negotiations over the specific terms and conditions of the demonstration project. CMS requests that state officials attest to the accuracy of the data provided to CMS. The essential parameters of the budget neutrality test are specified in the demonstration’s Special

Terms and Conditions (STCs). CMS's determination that a demonstration is expected to be budget neutral is based on forecasts, using reasonable projections of future spending and enrollment trends. CMS monitors budget neutrality throughout the demonstration period and performs a formal adjudication at the end of the demonstration period to determine whether the state's actual spending has remained within the specified limit. If actual expenditures are found to have exceeded the limit, the state agrees to return any excess federal share to CMS via the expenditure reconciliation process as a condition of approval of every section 1115(a) demonstration project. CMS will perform an adjudication for every demonstration at the conclusion of each approval period.

The budget neutrality expenditure limits are based on projections of the amount of federal Medicaid funding (federal financial participation, or FFP) that the state could have received in the absence of the demonstration. As a condition of each section 1115(a) demonstration approval, states agree to limit their receipt of FFP to the amounts indicated in the budget neutrality test, and to return any funds they receive, in excess of those limits, to CMS. A budget neutrality test is required for any section 1115 demonstration project, regardless of whether it involves use of section 1115(a)(1) waivers, section 1115(a)(2)(A) expenditure authority, or both. However, for demonstrations that include only waiver authorities under section 1115(a)(1), CMS may determine that the authorized waivers will not result in an increase in federal Medicaid spending and deem the demonstration to be budget neutral without application of the general methodology described in the budget neutrality State Medicaid Director Letter (SMDL)¹.

For demonstrations with authorized expenditure authority under section 1115(a)(2), determination of budget neutrality involves calculating that the demonstration project will likely achieve federal Medicaid "savings" sufficient to offset the additional projected federal costs resulting from the expenditure authority. Offsetting savings will be factored into the overall budget neutrality test for the demonstration and, if the total federal cost of the state's Medicaid program (specifically, the portion affected by the demonstration) plus the expenditure authority is less than or equal to the projection of federal Medicaid spending without the demonstration, the demonstration as a whole (including the expenditure authority), is determined to be budget neutral.

In cases where expenditure authority is provided for coverage of populations and services that the state could have otherwise provided through its Medicaid state plan or other title XIX authority, such as a 1915 waiver, CMS considers these expenditures to be "hypothetical"; that is, the services would have been eligible to receive FFP elsewhere in the Medicaid program. For these hypothetical expenditures, CMS makes adjustments to the budget neutrality test, which effectively treats them as if they were approved Medicaid state plan services. Hypothetical expenditures, therefore, do not necessitate savings to offset the otherwise-allowable services. This approach reflects CMS's position that states should not have to "pay for," with demonstration savings, costs that could have otherwise been eligible for FFP under a Medicaid state plan or other title XIX authority; however, when evaluating budget neutrality, CMS does not offset non-hypothetical expenditures with projected or accrued savings from hypothetical expenditures.

Budget Neutrality Monitoring Workbook

¹ <https://www.medicaid.gov/federal-policy-guidance/downloads/smd24003.pdf>

To help CMS track if a state's demonstration is budget neutral, the state must submit the attached Budget Neutrality Monitoring Workbook with their expenditure data at least annually that compares their actual and projected spending to the budget neutrality limits agreed to at approval of the demonstration. If a state is found to be close or over the limit of budget neutrality, a corrective action plan² may be started to help the state achieve budget neutrality during the demonstration period.

B. Description of Information Collection

Performance Metrics Database & Analytics (PMDA) Software Application Overview

States need to upload and submit their Budget Neutrality Monitoring Workbook to the Center for Medicaid & CHIP Services (CMCS) via the PMDA software application. PMDA is owned, operated, and managed by CMCS, offering the agency a source of high quality and timely data to use to monitor demonstrations for the achievement of desired outcomes and projected cost savings.

The goals of the PMDA application are not limited to collecting information in the Budget Neutrality Monitoring Workbook, and include:

- Collect programmatic quality and other performance metrics, related reports, and other deliverables associated with 1115 demonstrations and required by the Special Terms and Conditions (STCs) that govern each demonstration. The Budget Neutrality Monitoring Workbook is among the deliverables required by STCs. State deliverables submitted by states via PMDA are posted to Medicaid.gov following acceptance by CMS.
- Provide electronic reports and analytic files that support CMCS oversight, monitoring, and evaluation of 1115 demonstration performance, particularly on quality and other performance metrics, and on related incentive payments (if any).

Reporting on and Monitoring of Budget Neutrality Using the PMDA Budget Neutrality Monitoring Workbook

The characteristics of the budget neutrality test for each Medicaid 1115 State Demonstration project are determined as part of CMS and state negotiations that culminate in the demonstration's STCs. The STCs include a section describing the monitoring of budget neutrality, general financial requirements and corrective actions in the event that actual spending exceeds the specified limits. Together, the STCs describe the process by which the state should perform the respective calculations, as well as how to report the expenditures to CMS and reconciliation processes.

Per each demonstration's STCs, states are currently required to submit to CMS quarterly budget neutrality monitoring reports within 60-days of the end of each quarter, or as an annual report

² We believe the burden associated with preparing the corrective action plan is exempt from the PRA under 5 CFR 1320.4. Information collected subsequent to an administrative action is not subject to the PRA.

within 90-days of a demonstration year's completion. These reports are required to include fiscal reporting to assist in the determination of whether or not the demonstration is tracking as budget neutral. In the event that a state is found to have exceeded its budget neutrality expenditure limit(s) at the end of its demonstration's period of performance, the excess funds must be returned to CMS. States return funds by entering a negative adjustment to expenditures claimed on their CMS-64 quarterly or annual; reports (OMB 0938-1265).

Previously, there were inconsistencies in the manner in which states reported their financial data, in significant part due to minimal standardization of the collection instrument. This caused time-consuming reviews that did not support easy monitoring and assessment of budget neutrality over time or across the 1115 demonstration portfolio. To support more efficient, timely and accurate review of states' budget neutrality submissions, CMS has developed a standardized budget neutrality reporting form, known as the Budget Neutrality Monitoring Workbook. Specifically, the Workbook consolidated into a unified report a standard set of financial data. The standardization of the reporting methodology, together with automation of the reporting submission supports:

- consistency of evaluation;
- a streamlined communication methodology between states and CMS;
- increase in reporting accuracy;
- reduced timeframes required for monitoring and evaluation.

The Budget Neutrality Monitoring Workbook automates the entire submission process. By incorporating the monitoring workbook into the PMDA workflow, submissions are parsed and validated, notifying the state of any upfront potential problems with their submissions, reducing downstream communication, and subsequent needs for clarification or modifications to the Budget Neutrality Monitoring Workbook.

In this 2025 iteration we propose revising the currently approved Budget Neutrality Monitoring Workbook for states to use in their financial reporting. The revision reflects updates that capture: (1) how savings are rolled over across demonstration periods, (2) new savings cap and savings carry forward for the current demonstration period, and (3) greater flexibility for reporting of hypothetical expenditures.

The monitoring workbook has been formulated for use for the entire life span of the demonstration (up to and beyond 40 years). This allows reuse of the same document, with updates for the quarterly or annual period being reported (with the fourth quarter functioning as the annual report), and discards the need to produce different documents for each submission.

States and CMS do not need to revise the demonstration application or STCs to reflect changes associated with the 2025 changes to the Budget Neutrality Monitoring Workbook.

The training video and the transcript of the training video have been updated to explain the 2025 changes and updates to the Budget Neutrality Monitoring Workbook to stakeholders who interact with the Budget Neutrality Monitoring Workbook.

The PMDA application, which is used for submission, will historically retain all financial data and related documents, reducing the number of duplicate records required and the need for respondents to retain records.

To support the completion of the Budget Neutrality Monitoring Workbook and navigating PMDA, CMS provides the State User Budget Neutrality Playbook, which outlines the process to fill out the Budget Neutrality Monitoring Workbook through PMDA as well as the various user roles in PMDA.

C. Deviations from Generic Request

No deviations from the generic PRA request.

D. Burden Hour Deduction

We expect the time to complete the updated Budget Neutrality Monitoring Workbook, an Excel file hosted on PMDA, to be the similar to the time it takes today for states to complete the current version of the Budget Neutrality Monitoring Workbook. CMS requires quarterly or annual submissions of the Budget Neutrality Monitoring Workbook, with the 4th quarter submission functioning as the annual report for states on a quarterly reporting schedule. States will have to reference the CMS MBES system to obtain financial data on actual costs under the demonstration, pulling down a CMS-64 C (OMB 0938-1265) report. These actual cost data are used to populate the Budget Neutrality Monitoring Workbook.

During User Acceptance Testing for the original version of the Budget Neutrality Monitoring Workbook in 2018, California and Florida were sampled for the time to complete the workbook. Florida completed the spreadsheet with 3-MEGs (Medicaid Eligibility Groups) within 45 minutes, and California completed the monitoring workbook with 20-MEGs within 1 hour and 15 minutes. Both states reported no variance in the time to complete the monitoring workbook.

Annually, CMS anticipates 372 state or U.S. territory Medicaid agency demonstration responses (4 responses/yr x [73 existing demonstrations + 20 additional demonstrations]) from 47 states and territories. The monitoring workbook needs to be populated for each demonstration. States with multiple demonstrations will submit multiple monitoring workbooks, which is consistent with current submission methods.

No statistical methods are employed in information collection and in addition, the quarterly or annual reporting data fields are not duplicating any other collections.

Wage Estimates

To derive average costs, we are using data from the U.S. Bureau of Labor Statistics' (BLS') May 2024 National Occupational Employment and Wage Estimates for all salary estimates (<https://www.bls.gov/oes/tables.htm>). In this regard, the following table presents BLS' mean hourly wage, our estimated cost of fringe benefits and other indirect costs (calculated at 100 percent of salary), and our adjusted hourly wage.

Occupation Title	Occupation Code	Mean Hourly Wage (\$/hr)	Fringe Benefits and Other Indirect Costs (\$/hr)	Adjusted Hourly Wage (\$/hr)
Financial Manager	11-3031	86.76	86.76	173.52
Health Services Manager	11-9111	66.22	66.22	132.44

As indicated, we are adjusting our employee hourly wage estimates by a factor of 100 percent. This is necessarily a rough adjustment, both because fringe benefits and other indirect costs vary significantly from employer to employer, and because methods of estimating these costs vary widely from study to study. Nonetheless, we believe that doubling the hourly wage to estimate total cost is a reasonably accurate estimation method.

BLS's wage estimates are updated annually. Current and historic wage figures can be found at the above BLS address and can be used to calculate current cost estimates. May 2024 is current as of the date of this collection of information request.

Collection of Information Requirements and Associated Burden Estimates

Each state/territory is required to complete the attached Budget Neutrality Monitoring Workbook for all of their 1115 demonstrations. State burden is associated with completing and submitting the Workbook, reviewing (as necessary) the attached State User Budget Neutrality Playbook and, as needed, viewing the PMDA Budget Neutrality Training Video, as listed below.

Budget Neutrality Monitoring Workbook As of May 14, 2025, there are 47 states and territories with a total of 73 1115 demonstrations. In the next three years, we anticipate 20 additional demonstrations.

For each demonstration, we estimate it will take 7 hours at \$173.52/hr for a financial manager to complete the necessary information in the budget neutrality monitoring workbook and 1 hour at \$132.44/hr for a health services manager to review and submit the budget neutrality monitoring workbook as part of their quarterly or annual submission to CMS.

In aggregate we estimate an annual on-going burden of 2,976 hours (93 demonstrations x 8 hr/response x 4 responses/year) at a cost of \$501,114 [(93 submissions x 7 hr/quarter x 4 quarters/year x \$173.52/hr) + (93 submissions x 1 hr/quarter x 4 quarters/year x \$132.44/hr)].

States with quarterly reporting requirements do not need to submit a separate annual report, as their fourth quarter report functions as the annual report.

Training Video & State User Budget Neutrality Playbook We estimate a burden of 35 minutes (0.58 hr) consisting of 28 minutes (0.47 hr) at \$173.52/hr for a state Financial Manager to review the Playbook and 7 minutes (0.11 hr) at \$132.44/hr for a state Health Services Manager to watch the video "Completing the Budget Neutrality Monitoring Workbook."

In aggregate we estimate an annual burden of 27 hours (0.58 hr x 47 states) at a cost of \$4,518 [(47 states x 0.47 min/response x \$173.52/hr) + (47 states x 0.11 min/response x \$132.44/hr)].

Burden Summary

Our total burden estimates are summarized in the following table.

Requirement	Respondents	Total Responses	Time per Response (hours)	Total Annual Time (hours)	Labor Cost (\$/hr)	Total Cost (\$)
Budget Neutrality Monitoring Workbook	47 States	372 (93 responses x 4 responses/year)	8	976	Varies	501,114
Training Video and State User Budget Neutrality Playbook	47 States	47 responses (47 responses x 1 response/year)	0.58	27	Varies	4,518
Total	47 States	466	Varies	3,003	Varies	505,632

Based on the more recent information, we have adjusted the number of respondents by plus five States (from 42 to 47 States) and the number of demonstrations by plus four demonstrations (from 69 to 73 demonstrations). The estimates also include 20 additional demonstrations expected over the next three years. These changes add 107 responses (from 265 to 372 responses).

We have also increased our Workbook's per response time estimate by plus 1 hour (from 7 to 8 hr/response). This iteration's proposed changes to the Workbook are based on internal review. Overall, the additional volume of demonstrations included in this analysis and the Workbook changes result in 1,121 additional hours (from 1,855 to 2,976 hr).

The Training Video and Playbook increases the number of responses by plus 5 responses (from 42 to 47 responses) while reducing the time by minus 15 hours (from 42 to 27 hr).

Information Collection Instruments and Instruction/Guidance Materials

- (1) PMDA Budget Neutrality Monitoring Workbook, including instructional 'Overview' worksheet, which provides details for completing the monitoring workbook and identifies each cell within the monitoring workbook that needs to be populated.
(Revised; see the attached Crosswalk of changes and redline version of the revised workbook for details)
- (2) State User Budget Neutrality Playbook
(Revised; see the attached Crosswalk of changes and redline version of the revised playbook for details)
- (3) Video: Completing the Budget Neutrality Monitoring Workbook (6:24 minutes), embedded as a viable link within the workbook
<https://www.screencast.com/t/JMYsHHAwaisZ>
(Revised; see the attached Crosswalk of changes and redline version of the revised video)

script for details)

- (4) Video Script: Completing the Budget Neutrality Monitoring Workbook (Revised; see the attached Crosswalk of changes and redline version of the revised vide script for details)

E. Timeline

The 14-day notice published in the Federal Register on September 8, 2025 (90 FR 43190). Comments must be received on/by September 22.

CMS requests OMB's approval within 30-days from the date of submission to OMB.