

MAINTENANCE LEVEL 2

M2-MA Certified Public Expenditures Adjustment

RECOMMENDATION SUMMARY TEXT

The Health Care Authority (HCA) requests an increase of \$2,644,000 GF-State in the 2016 Supplemental as an adjustment to the carry forward funding for the Certified Public Expenditure (CPE) Program. This adjustment is necessary to ensure that funding is sufficient to support anticipated hold harmless grants and cost settlement payments.

PACKAGE DESCRIPTION

The CPE program budget for fiscal year 2016 from the fiscal year 2015 operating budget is \$13,639,000 which includes \$3,545,000 for cost settlements and \$10,094,000 for Hold Harmless grants. The Behavioral Health and Service Integration Administration (BHSIA) of the Department of Social and Health Services (DSHS) is required to contribute \$6,570,000 to the HCA for the mental health portion of inpatient CPE program costs..

The CPE program was initially implemented in the 2005-2007 biennium as a replacement for the Inter-Governmental Transfer (IGT) program. The CPE program applies to public hospitals, including government operated hospitals that are not critical access or state psychiatric hospitals. This proposal requests the funding required for the CPE program for fiscal years 2016 and 2017, which can be broken into two components: 1) hold harmless grants and 2) the estimated federal cost settlements related to fiscal years 2016 and 2017.

It is the state's policy to hold each hospital financially harmless for changes to the CPE payment methodology. A hospital will not be paid less under the CPE methodology than it would have been paid under the hospital payment methodology in place at the time services are rendered. HCA performs an annual analysis that compares the total each hospital would have been paid for inpatient claims under current standard hospital payment methodology and Disproportionate Share Hospital (DSH) payments at 2005 levels, to what they will be paid under CPE. Hold Harmless grants are paid to hospitals whose total payments are less under CPE. Updated calculations indicate that the Hold Harmless grants for fiscal years 2016 and 2017 will total \$14,338,000. These estimates for Hold Harmless grants assume that CPE hospitals will be held harmless to 50 percent of the Indigent Assistance DSH payment and 100 percent of Low-Income DSH amounts paid to and retained by each hospital during fiscal year 2005, consistent with the carry forward level of the 2015-17 biennium operating budget.

Federal requirements mandate that payments made using CPE are cost-settled once actual payments are known. Payments made during a given fiscal year under the CPE methodology are based on an estimate of costs for that year. Costs are estimated using the hospitals' most recent Ratio-of-Cost-to-Charges (RCC) which is typically based on data from two years prior. For example, the RCC used for the cost estimate for fiscal year 2016 is a hospital's most recent RCC and is based on 2014 data. Hospital RCCs based on 2015 data will not be available until 2017. Due to this time lag, the Center for Medicare

and Medicaid Services (CMS) requires actual costs be recalculated once the RCCs for that year are known. Therefore, state funds will need to be appropriated in fiscal years 2016 and 2017 to cost settle fiscal years 2015 and 2016. Current estimates indicate that the federal cost settlements for fiscal years 2016 and 2017 will be the same as the fiscal year 2015 level.

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FISCAL DETAILS/OBJECTS OF EXPENDITURE

	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
1. Operating Expenditures:			
Fund 001-1 GF-State	\$ (138,000)	\$ 2,782,000	\$ 2,644,000
Total	\$ (138,000)	\$ 2,782,000	\$ 2,644,000

	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
2. Staffing:			
Total FTEs	-	-	-

	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
3. Objects of Expenditure:			
A - Salaries And Wages	\$ -	\$ -	\$ -
B - Employee Benefits	\$ -	\$ -	\$ -
C - Personal Service Contracts	\$ -	\$ -	\$ -
E - Goods And Services	\$ -	\$ -	\$ -
G - Travel	\$ -	\$ -	\$ -
J - Capital Outlays	\$ -	\$ -	\$ -
N - Grants, Benefits & Client Services	\$ (138,000)	\$ 2,782,000	\$ 2,644,000
Other (specify) -	\$ -	\$ -	\$ -
Total	\$ (138,000)	\$ 2,782,000	\$ 2,644,000

	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
4. Revenue:			
Fund 001-2 GF-Federal	\$ -	\$ -	\$ -
Total	\$ -	\$ -	\$ -

NARRATIVE JUSTIFICATION

WHAT SPECIFIC PERFORMANCE OUTCOMES DOES THE AGENCY EXPECT?

The CPE program allows public hospitals to certify their inpatient fee-for-service claims and Disproportionate Share Hospital (DSH) expenditures to receive federal financial participation (FFP) funds. In so doing, the state does not have to contribute the local share of these expenditures, saving the state an estimated \$80 million GF-State per year.

PERFORMANCE MEASURE DETAIL

Activity Inventory

H014 HCA Federal Financing Programs (Non-Forecasted)

IS THIS DECISION PACKAGE ESSENTIAL TO IMPLEMENT A STRATEGY IDENTIFIED IN THE AGENCY'S STRATEGIC PLAN?

The mission of the HCA is to provide high quality health care through innovative health policies and purchasing strategies. This request supports the agency's mission by supporting the HCA guiding principle of being a prudent purchaser of health care services.

Also, by assuring hospitals that they will not receive less money through CPE payments than they would get through current standard hospital payment methodologies, this request supports the financial viability of the state's hospital community.

DOES THIS DECISION PACKAGE PROVIDE ESSENTIAL SUPPORT TO ONE OR MORE OF THE GOVERNOR'S RESULTS WASHINGTON PRIORITIES?

Yes. Funding this package allows us to support Governor Inslee's Results Washington – Goal 4: Healthy and Safe Communities, and Goal 5: Effective, Efficient, and Accountable Government.

WHAT ARE THE OTHER IMPORTANT CONNECTIONS OR IMPACTS RELATED TO THIS PROPOSAL?

This proposal maintains the same level of health care services without the additional inter-governmental transfer (IGT) revenues that were discontinued effective fiscal year 2006.

WHAT ALTERNATIVES WERE EXPLORED BY THE AGENCY, AND WHY WAS THIS ALTERNATIVE CHOSEN?

None

WHAT ARE THE CONSEQUENCES OF NOT ADOPTING THIS PACKAGE?

Without this request, the HCA will have a GF-State appropriation in the 2015-2017 biennium that exceeds its projected expenditure needs.

WHAT IS THE RELATIONSHIP, IF ANY, TO THE STATE CAPITAL BUDGET?

None

WHAT CHANGES WOULD BE REQUIRED TO EXISTING STATUTES, RULES, OR CONTRACTS TO IMPLEMENT THE CHANGE?

None

EXPENDITURE AND REVENUE CALCULATIONS AND ASSUMPTIONS

REVENUE CALCULATIONS AND ASSUMPTIONS:

All funding is GF-State.

EXPENDITURE CALCULATIONS AND ASSUMPTIONS:

	SFY2016 based on SFY2015 operating			SFY2017 based on SFY2015 operating		
	State		Total	State		Total
	HA (General)	NJ (HH Grants)		HA (General)	NJ (HH Grants)	
State-Only			-			-
HH Grants		16,664,000	16,664,000		8,170,000	8,170,000
MH Offset	(6,570,000)		(6,570,000)	(6,570,000)		(6,570,000)
Federal Cost Settlements	3,545,000		3,545,000	3,545,000		3,545,000
CPE Total	(3,025,000)	16,664,000	13,639,000	(3,025,000)	8,170,000	5,145,000
	ML CPE SFY2016 - October 2015 10/02/2015			ML CPE SFY2017 - October 2015 10/02/2015		
	State		Total	State		Total
	HA (General)	NJ (HH Grants)		HA (General)	NJ (HH Grants)	
State-Only			-			-
HH Grants		16,526,000	16,526,000	-	10,952,000	10,952,000
MH Offset	(6,570,000)		(6,570,000)	(6,570,000)		(6,570,000)
Federal Cost Settlements	3,545,000		3,545,000	3,545,000		3,545,000
CPE Total	(3,025,000)	16,526,000	13,501,000	(3,025,000)	10,952,000	7,927,000
Change	-	(138,000)	(138,000)	-	2,782,000	2,782,000

The total increase of \$2,644,000 GF-State is the sum of the total change for fiscal years 2016 and 2017. The hold-harmless amounts are the total of the hold-harmless grant less the Mental Health Offset.

DISTINCTION BETWEEN ONE-TIME AND ONGOING COSTS:

All costs identified in this package are ongoing.

BUDGET IMPACTS IN FUTURE BIENNIA:

The CPE program will continue into the foreseeable future. The funding needed for upcoming biennia will be determined based on future expenditure forecasts and cost and payment data received by hospitals.