

## Maintenance Level

# M2-RA CPE DSH Adjustments

### Agency Recommendation Summary Text

The Health Care Authority (HCA) requests an increase of \$17,357,000 (\$155,000 GF-State) in the 2017 Supplemental to align with projected costs for the Certified Public Expenditure (CPE) program along with the federal disproportionate share hospital funds. This adjustment is necessary to ensure that funding is sufficient to support anticipated hold harmless grants and cost settlement payments.

### Fiscal Summary

Operating Expenditures	FY 2017	FY 2018	FY 2019
Fund 001-1 GF-State	\$155,000	\$3,858,000	\$8,689,000
Fund 001-C GF-Medicaid	\$17,202,000	\$(6,599,000)	\$(17,893,000)
<b>Total Cost</b>	<b>\$17,357,000</b>	<b>\$(2,741,000)</b>	<b>\$(9,204,000)</b>
Staffing	FY 2017	FY 2018	FY 2019
FTEs	0.0	0.0	0.0
Revenue	FY 2017	FY 2018	FY 2019
Fund 001-C GF-Medicaid	\$17,202,000	\$(6,599,000)	\$(17,893,000)
<b>Total Revenue</b>	<b>\$17,202,000</b>	<b>\$(6,599,000)</b>	<b>\$(17,893,000)</b>
Object of Expenditure	FY 2017	FY 2018	FY 2019
Obj. N – Client Services	\$17,357,000	\$(2,741,000)	\$(9,204,000)

### Package Description

The HCA requests an increase of \$17,357,000 (\$155,000 GF-State) for the 2017 fiscal year as an adjustment to the base funding for the hold harmless and federal settlement payments related to the CPE program.

The CPE program budget for fiscal year 2017 is \$122,900,000, which includes \$109,655,000 for Public Hospital Disproportionate Share payments, \$3,545,000 for cost settlements and \$9,700,000 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. This request may be updated with the availability of the final October 2016 medical assistance forecast. Eligibility growth under the Affordable Care Act may also affect the October update.

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 year 2017, which can be broken into two components: 1) hold harmless grants and 2) the estimated federal cost settlements.

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. The 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 year 2017 will total \$9,855,000. 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.

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 2017 is a hospital's most recent RCC and is based on 2015 data. Hospital RCCs based on 2016 data will not be available until 2018. 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 2017 and 2018 to cost settle fiscal years 2016 and 2017. Current estimates indicate that the federal cost settlements for fiscal years 2017 and 2018 will be the same as the fiscal year 2015 level.

Michelle Corral, Financial Services Division: 360-725-1290 or michelle.corral@hca.wa.gov

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## **Decision Package Justification and Impacts**

### **Performance Measure Detail:**

#### **Activity Inventory**

H014 HCA Federal Financing Programs (Non-Forecasted)

### **What specific performance outcomes does the agency expect?**

The CPE program allows public hospitals to certify their inpatient fee-for-service claims and 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 fiscal year.

### **What alternatives were explored by the agency and why was this option chosen?**

No alternatives were considered.

### What are the consequences of not funding this request?

This request supports the agency's mission by assuring that hospitals 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.

### How has or can the agency address the issue or need in its current appropriation level?

The agency could reduce overall hold harmless payments and would thereby be out of compliance with the current WAC 182-550.

### Provide references to any supporting literature or materials:

None

### Base Budget

#### If the proposal is an expansion or alteration of a current program or service, provide information on the resources now devoted to the program or service.

This request is not an expansion or alteration of the current CPE program. It adjusts the funding to support the current program, based on projected needs in future fiscal years.

### Expenditure, FTE and Revenue Assumptions, Calculations and Details:

	SFY2017 based on SFY2016 Supplemental			Base Funding FY 2018 (CFL)			Base Funding FY 2019 (CFL)		
	State		Federal	State		Federal	State		Federal
	HA (General)	NJ (HH Grants)	WM (General)	HA (General)	NJ (HH Grants)	WM (General)	HA (General)	NJ (HH Grants)	WM (General)
<b>State-Only</b>									
HH Grants		9,700,000		-	12,107,000			9,700,000	
MH Offset	(6,570,000)			(6,570,000)			(6,570,000)		
Federal Cost Settlements	3,545,000			3,545,000			3,545,000		
<b>Federal-Only</b>									
PH DSH			109,655,000			109,655,000			109,655,000
<b>CPE Total</b>	<b>(3,025,000)</b>	<b>9,700,000</b>	<b>109,655,000</b>	<b>(3,025,000)</b>	<b>12,107,000</b>	<b>109,655,000</b>	<b>(3,025,000)</b>	<b>9,700,000</b>	<b>109,655,000</b>

	ML CPE SFY2017 - October 2016 9/29/2016			SFY2018			SFY2019		
	State		Federal	State		Federal	State		Federal
	HA (General)	NJ (HH Grants)	WM (General)	HA (General)	NJ (HH Grants)	WM (General)	HA (General)	NJ (HH Grants)	WM (General)
<b>State-Only</b>									
HH Grants	-	9,855,000		-	15,965,000		-	18,389,000	
MH Offset	(6,570,000)			(6,570,000)			(6,570,000)		
Federal Cost Settlements	3,545,000			3,545,000			3,545,000		
<b>Federal-Only</b>									
PH DSH			126,857,000			103,056,000			91,762,000
<b>CPE Total</b>	<b>(3,025,000)</b>	<b>9,855,000</b>	<b>126,857,000</b>	<b>(3,025,000)</b>	<b>15,965,000</b>	<b>103,056,000</b>	<b>(3,025,000)</b>	<b>18,389,000</b>	<b>91,762,000</b>
<i>Change from base funding</i>	-	155,000	17,202,000	-	3,858,000	(6,599,000)	-	8,689,000	(17,893,000)

## Impacts to Communities and Other Agencies

**Fully describe and quantify expected impacts on state residents and specific populations served.**

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 are other important connections or impacts related to this proposal?

#### Does this request have:

Regional/county impacts?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Other local government impacts?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Tribal government impacts?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Other state agency impacts?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

#### Does this request:

Have any connection to Puget Sound recovery?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Respond to specific task force, report, mandate or executive order?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Contain a compensation change?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Require a change to a collective bargaining agreement?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Create facility/workplace needs or impacts?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Contain capital budget impacts?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Require changes to existing statutes, rules or contracts?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Have any relationship to or result from litigation?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

#### **If "Yes" to any of the above, please provide a detailed discussion of connections/impacts.**

By assuring hospitals 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 public hospital community.

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## Information Technology (IT)

**Does this request include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?**

No



Yes

Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.)