

Maintenance Level

M2-AE CPE DSH Adjustments

Agency Recommendation Summary Text

The Health Care Authority (HCA) requests a reduction of \$8,083,000 (an increase of \$16,483,000 GF-State and a decrease of \$24,566,000 GF-Federal) in the 2017-2019 biennium to align with projected costs for the Certified Public Expenditure (CPE) program along with the expectation of a reduction in 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. This request will be updated with the availability of the final October 2016 medical assistance forecast.

Fiscal Summary

Operating Expenditures	FY 2018	FY 2019	FY 2020	FY 2021
Fund 001-1 GF-State	\$6,091,000	\$10,392,000	\$9,908,000	\$15,289,000
Fund 001-C GF-Medicaid	\$(6,636,000)	\$(17,930,000)	\$(29,224,000)	\$(40,518,000)
Total Cost	\$(545,000)	\$(7,538,000)	\$(18,771,000)	\$(17,691,000)
Staffing	FY 2018	FY 2019	FY 2020	FY 2021
FTEs	0.0	0.0	0.0	0.0
Revenue	FY 2018	FY 2019	FY 2020	FY 2021
Fund 001-C GF-Medicaid	\$(6,636,000)	\$(17,930,000)	\$(29,224,000)	\$(40,518,000)
Total Revenue	\$(6,636,000)	\$(17,930,000)	\$(29,224,000)	\$(40,518,000)
Object of Expenditure	FY 2018	FY 2019	FY 2020	FY 2021
Obj. N – Client Services	\$(545,000)	\$(7,538,000)	\$(18,771,000)	\$(17,691,000)

Package Description

The HCA requests a decrease of \$8,083,000 (an increase of \$16,483,000 GF-State and a decrease of \$24,566,000 GF-Federal) for the 2017-2019 biennium as an adjustment to the carry forward funding for the hold harmless and federal settlement payments related to the CPE Program.

The CPE program carry forward budget from fiscal year 2016 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 will be updated with the availability of the final October 2016 medical assistance forecast. Eligibility growth under the Affordable Care Act may also impact 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 years 2018 and 2019, which can be broken into two components: 1) hold harmless grants and 2) the estimated federal cost settlements related to fiscal years 2018 and 2019.

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 years 2018 and 2019 will total \$38,289,000. In addition, the calculations also show that the Hold Harmless grants for fiscal years 2020 and 2021 will be \$47,004,000. The Hold Harmless calculations are based on an assumption that the federal disproportionate share hospital (DSH) funds will decrease starting state fiscal year 2018. The estimates for Hold Harmless grants also 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 (CFL) of the 2015-2017 biennium 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 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 2018 and 2019 to cost settle fiscal years 2017 and 2018. Current estimates indicate that the federal cost settlements for fiscal years 2017 and 2018 will be the same as the fiscal year 2015 level.

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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.

Without this request, the HCA will have a GF-Federal appropriation in the 2017-2019 biennium that exceeds the projected expenditure needs.

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:

2017-2019 Beginning Funding Level (CFL)	Base Funding FY 2018			
	State		Federal	Total
	HA (General)	NJ (HH Grants)	WM (General)	
State-Only				
HH Grants	-	12,107,000		12,107,000
MH Offset	(6,570,000)			(6,570,000)
Federal Cost Settlements	3,545,000			3,545,000
Federal-Only				
PH DSH			109,655,000	109,655,000
CPE Total	(3,025,000)	12,107,000	109,655,000	118,737,000

	Base Funding FY 2019			
	State		Federal	Total
	HA (General)	NJ (HH Grants)	WM (General)	
State-Only				
		9,700,000		9,700,000
	(6,570,000)			(6,570,000)
	3,545,000			3,545,000
Federal-Only				
			109,655,000	109,655,000
CPE Total	(3,025,000)	9,700,000	109,655,000	116,330,000

Anticipated 2017-2019	ML CPE SFY2018 - August 2016 Draft			
	State		Federal	Total
	HA (General)	NJ (HH Grants)	WM (General)	
State-Only				
HH Grants	-	18,198,000		18,198,000
MH Offset	(6,570,000)			(6,570,000)
Federal Cost Settlements	3,545,000			3,545,000
Federal-Only				
PH DSH			103,019,000	103,019,000
CPE Total	(3,025,000)	18,198,000	103,019,000	118,192,000

	ML CPE SFY2019 - August 2016 draft			
	State		Federal	Total
	HA (General)	NJ (HH Grants)	WM (General)	
State-Only				
	-	20,092,000		20,092,000
	(6,570,000)			(6,570,000)
	3,545,000			3,545,000
Federal-Only				
			91,725,000	91,725,000
CPE Total	(3,025,000)	20,092,000	91,725,000	108,792,000

Change from 2017-2019 CFL

-	6,091,000	(6,636,000)	(545,000)
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-	10,392,000	(17,930,000)	(7,538,000)
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Anticipated 2019-2021	ML CPE SFY2020- August 2016 Draft			
	State		Federal	Total
	HA (General)	NJ (HH Grants)	WM (General)	
State-Only				
HH Grants	-	22,015,000		22,015,000
MH Offset	(6,570,000)			(6,570,000)
Federal Cost Settlements	3,545,000			3,545,000
Federal-Only				
PH DSH			80,431,000	80,431,000
CPE Total	(3,025,000)	22,015,000	80,431,000	99,421,000

	ML CPE SFY2021- August 2016 draft			
	State		Federal	Total
	HA (General)	NJ (HH Grants)	WM (General)	
State-Only				
	-	24,989,000		24,989,000
	(6,570,000)			(6,570,000)
	3,545,000			3,545,000
Federal-Only				
			69,137,000	69,137,000
CPE Total	(3,025,000)	24,989,000	69,137,000	91,101,000

Change from 2017-2019 CFL

-	9,908,000	(29,224,000)	(18,771,000)
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-	15,289,000	(40,518,000)	(17,691,000)
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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 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.

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.)