

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Joint Budget Committee
FROM Eric Kurtz, JBC Staff (303-866-4952)
DATE November 14, 2019
SUBJECT Governor's letter to Colorado's Congressional Delegation regarding:

- Disproportionate Share Hospital Payments
- Children's Health Insurance Program

The Governor recently sent a letter to Colorado's congressional delegation about Disproportionate Share Hospital payments and the Children's Health Insurance Program (see a copy of the letter at the end of this memo) and a representative from the Governor's Office encouraged the Joint Budget Committee to send a similar letter. At the request of Senator Moreno, this memo provides some background information on the issues.

It is not common for the JBC to send letters to the Congressional delegation, but there are definitely examples where it has occurred. An informal survey of senior JBC staff identified at least three occasions when the JBC sent a letter in the last 15-20 years. A search through the archives would probably identify more examples, but it would be time consuming.

On one of the occasions, in 2015, the JBC sent a letter to Colorado's Congressional delegation regarding the Children's Health Insurance Program (CHIP) and Jared Polis was one of the recipients of that letter. The JBC discussed sending another letter regarding CHIP in 2017, but Congress acted before the second letter was drafted or sent. In both cases the issue was a lack of action on the federal budget authorization for CHIP.

The 2015 letter encouraged Congress to make a decision about funding for CHIP, but it intentionally avoided specifying a particular course of action. The letter emphasized the need for clarity on federal funding in order to balance the state budget. It went on to summarize the enrollment and fiscal impact of CHIP and highlighted the difficult decisions the Colorado legislature would need to make to fill the hole in the state budget or change eligibility and benefits should Congress fail to reauthorize funding, which might have revealed a bias regarding what the JBC hoped Congress would do.

DISPROPORTIONATE SHARE HOSPITAL (DSH) PAYMENTS

The Governor's letter urges Congress to delay a scheduled reduction in Disproportionate Share Hospital (DSH) payments. The DSH program provides federal funds for hospitals that see an outsized share of uninsured patients in order to help offset costs for uncompensated care.

In Colorado, the state match for the DSH program comes from a provider fee on hospitals, called the Healthcare Affordability and Sustainability (HAS) fee. The provider fee is collected from hospitals, matched with federal funds, and then distributed back to the hospitals. There is no cost to the General Fund. Normally, supplemental payments to hospitals using financing from the HAS fee are constrained by a federal Upper Payment Limit. The DSH program increases the amount of supplemental payments that can be made to hospitals with financing from the HAS fee. For context, in FFY 2018-19 financing from the HAS fee allowed supplemental payments to hospitals totaling \$664.0 million federal funds and of this amount \$106.5 million was from DSH.

Colorado has decided to allocate the DSH payments based on the participation of each hospital in the Colorado Indigent Care Program. Through the Colorado Indigent Care Program hospitals agree to accept reduced payments from patients on a sliding scale according to income in exchange for DSH payments.

The table below summarizes the allocation of DSH payments in FFY 2018-19. It is important to note that FFY 2019-20 payments may not be proportional to FFY 2018-19. Broad federal guidelines provide significant flexibility to states in how to allocate DSH payments by hospital. Also, DSH payments are only a portion of total supplemental payments to hospitals that are financed with the HAS fee and the other supplemental payments could be adjusted to account for a reduction in DSH payments. A portion of the total DSH payment comes from the HAS fee, which is collected from the hospitals. So, the net benefit to the hospitals is closer to the federal funds amount than the total payment. (Technically, HAS fee collections from a hospital may not be in proportion to DSH payments, and so the net benefit from DSH to a particular hospital may be higher or lower than the federal funds, but it is impossible to look at the DSH payments in isolation of all other uses of the HAS fee to assign a net benefit specifically for DSH.)

Disproportionate Share Hospital Payments FFY 2018-19				
Hospital	County	Total DSH	HAS Fee	Federal Funds
Denver Health Medical Center	Denver	\$79,153,178	\$39,576,589	\$39,576,589
Children's Hospital Colorado	Adams	34,514,993	17,257,497	17,257,497
North Colorado Medical Center	Weld	24,731,355	12,365,678	12,365,678
University of Colorado Hospital	Adams	15,057,244	7,528,622	7,528,622
Platte Valley Medical Center	Adams	11,691,026	5,845,513	5,845,513
National Jewish Health	Denver	8,729,020	4,364,510	4,364,510
Longmont United Hospital	Boulder	7,770,252	3,885,126	3,885,126
St. Mary's Hospital & Medical Center, Inc.	Mesa	6,927,366	3,463,683	3,463,683
Valley View Hospital	Garfield	5,376,234	2,688,117	2,688,117
McKee Medical Center	Larimer	3,904,951	1,952,476	1,952,476
Banner Fort Collins Medical Center	Larimer	3,344,654	1,672,327	1,672,327
Community Hospital	Mesa	3,076,524	1,538,262	1,538,262
Boulder Community Health	Boulder	2,850,449	1,425,225	1,425,225
Memorial Regional Health	Moffat	1,635,846	817,923	817,923
Sedgwick County Health Center	Sedgwick	1,187,924	593,962	593,962
Longs Peak Hospital	Weld	1,145,645	572,823	572,823
Montrose Memorial Hospital	Montrose	1,088,999	544,500	544,500
Grand River Hospital District	Garfield	534,031	267,016	267,016
Aspen Valley Hospital	Pitkin	208,883	104,442	104,442
TOTAL		\$212,928,574	\$106,464,287	\$106,464,287

Since the Governor's letter was sent, Congress delayed the scheduled reduction in DSH payments until November 22, 2019, and the Centers for Medicare and Medicaid Services (CMS) clarified that Colorado's share of the reduction is \$27.9 million. Without the reduction, CMS indicates Colorado's DSH allotment would be \$108.2 million and with the reduction Colorado will receive \$80.3 million. The \$27.9 million difference is a 25.8 percent reduction to federal funding through the DSH program.

As described in the Governor's letter, the logic for the scheduled reduction in DSH payments was that provisions of the Affordable Care Act (ACA) were designed to decrease bad debt and charity care. The most recent report from the Department indicates hospital bad debt and charity care in Colorado decreased from \$699.7 million in 2013, prior to implementation of the ACA, to \$286.3

million in 2017. The \$413.5 million decrease in bad debt and charity care far exceeds the \$27.9 million scheduled decrease in DSH payments.

If the scheduled reduction in DSH payments takes effect, there will be no direct impact on the state budget, as there is no General Fund match for DSH. There might be an indirect impact on the state budget to the extent that the General Assembly wants to backfill the loss of federal funds for the hospitals. The Governor's letter implies that a reduction in DSH payments would exacerbate a cost shift from public to private insurance when public insurance reimbursement is below cost. The Governor's letter also highlights the role DSH funds play in supporting care transformation and community based cost containment strategies. An alternative possible outcome is that a reduction in DSH payments could spur cost containment measures at hospitals that might benefit all payers.

CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

The Governor's letter encourages Congress to delay decreases in the federal match rate for the Children's Health Insurance Program. The Children's Health Insurance Program is the federal name for the program that authorizes and finances Colorado's Child Health Plan Plus, which provides low-cost health insurance for children and pregnant women in families with more income than Medicaid eligibility criteria allow up to effectively 265 percent of the federal poverty guidelines.

The federal match rate for CHIP decreased in FFY 2019-20 and is scheduled to decrease again in FFY 2020-21. For Colorado, the federal match rate decreased from 88 percent to 76.5 percent in October 2019 and it will decrease again to 65 percent in October 2020. Originally, the entire decrease was scheduled to occur in FFY 2019-20, but Congress decided to phase the decrease over two years.

The decrease in the federal match rate is already accounted for in the state FY 2019-20 budget. For state FY 2020-21 the Department projects the decrease in the federal match rate will increase the state share of expenditures by \$40.7 million, including \$32.0 million General Fund (with the remainder from the HAS fee), and this has been accounted for in the Governor's request.



COLORADO

Governor Jared Polis

September 23, 2019

The Honorable Michael Bennet
United States Senator

The Honorable Cory Gardner
United States Senator

The Honorable Scott Tipton
Member of Congress

The Honorable Joe Neguse
Member of Congress

The Honorable Diana DeGette
Member of Congress

The Honorable Doug Lamborn
Member of Congress

The Honorable Ken Buck
Member of Congress

The Honorable Jason Crow
Member of Congress

The Honorable Ed Perlmutter
Member of Congress

Dear Colorado Congressional Delegation,

Medicaid and the Children's Health Insurance Program (CHIP) are critical health coverage programs for families, children, seniors, and those living with disabilities in the State of Colorado.

In the Patient Protection and Affordable Care Act (PPACA, P.L. 111-148), Medicaid's Disproportionate Share Hospital (DSH) payments were reduced under the assumption that the expansion of health care coverage would decrease the number of uninsured Americans and that there would be less uncompensated care. The DSH payment reduction was scheduled to take effect in Fiscal Year (FY) 2014, but has been delayed repeatedly. If the policy is not further delayed, the DSH payment reduction will go into effect on October 1, 2019. The policy would cut \$4 billion from DSH payments in FY 2020, increasing to an annual cut of \$8 billion from DSH payments from FY 2021 to 2025. This reduction represents a large portion of Medicaid DSH payments, which totaled \$12.6 billion in FY 2019.

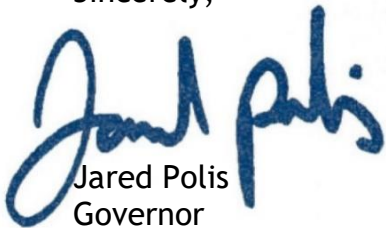
DSH payments reimburse hospitals for indigent care and help the State of Colorado bring hospital reimbursement for providing health care services to Medicaid beneficiaries to an average of 72 cents on every dollar spent. Denver Health and Hospital Authority, San Luis Valley Health in Alamosa, and other safety net and rural hospitals depend on DSH payments to help them provide care to the community. DSH funds are also key to hospital transformation across Colorado and support hospitals in implementing community based cost containment strategies.



This week, the Senate will take up the Continuing Resolution before the September 30 deadline. It is promising that the pending Continuing Resolution (CR) includes an extended delay of the DSH payment reduction until November 21, 2019; however, this is not a permanent solution. The House Committee on Energy and Commerce amended and favorably reported H.R. 2328, the Community Health Investment, Modernization, and Excellence Act, which would delay the DSH payment reduction for two years and lower the proposed cuts from \$8 billion to \$4 billion in FY 2022. If the DSH payment reduction is not delayed through the passage of H.R. 2328 or added to another piece of moving legislation that is signed into law, the policy will go into effect and result in an estimated \$35.3 million cut in federal funds to Colorado hospitals in FY 2020.

PPACA's proposed reductions to the federal match rate for CHIP will also put serious pressure on the state of Colorado's budget impacting children and families. In October 2019, the federal match rate is scheduled to decrease from 88 percent to 76.5 percent, and in October 2020, another reduction to 65 percent is expected. As a result, the State of Colorado must increase its annual CHIP budget from approximately \$30 million to \$40 million to compensate for the loss of federal funds. The State of Colorado asks the federal government to refrain from reducing the federal match rate for CHIP and ensure adequate funding continues to support the health of low-income children.

Sincerely,

A handwritten signature in blue ink that reads "Jared Polis". The signature is stylized and cursive.

Jared Polis
Governor