

**Schedule 13
Funding Request for the 2013-14 Budget Cycle**

Department: Health Care Policy and Financing

Request Title: 1.5% Provider Rate Increase

Priority Number: R-13

Dept. Approval by: John Bartholomew *JB 10/26/12* Date 10/26/12

OSPB Approval by: Grant N. Smith *10/30/12* Date 10/30/12

Decision Item FY 2013-14
 Base Reduction Item FY 2013-14
 Supplemental FY 2012-13
 Budget Amendment FY 2013-14

Line Item Information		FY 2012-13		FY 2013-14		FY 2014-15
		1	2	3	4	5
	Fund	Appropriation FY 2012-13	Supplemental Request FY 2012-13	Base Request FY 2013-14	Funding Change Request FY 2013-14	Continuation Amount FY 2014-15
Total of All Line Items	Total	\$3,989,761,014	\$0	\$4,030,680,301	\$33,116,630	\$36,586,647
	FTE	0.0	0.0	\$0	0.0	0.0
	GF	\$1,052,677,492	\$0	\$1,094,943,022	\$14,578,983	\$15,990,776
	GFE	\$312,202,624	\$0	\$312,202,624	\$0	\$0
	CF	\$651,181,857	\$0	\$626,082,971	\$1,227,138	\$932,784
	RF	\$3,215,340	\$0	\$1,215,340	\$0	\$0
	FF	\$1,970,483,701	\$0	\$1,996,236,344	\$17,310,509	\$19,663,087
(2) Medical Services Premiums	Total	\$3,985,613,386	\$0	\$4,026,532,673	\$33,054,416	\$36,514,097
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$1,050,603,677	\$0	\$1,092,869,207	\$14,547,876	\$15,954,501
	GFE	\$312,202,624	\$0	\$312,202,624	\$0	\$0
	CF	\$651,181,857	\$0	\$626,082,971	\$1,227,138	\$932,784
	RF	\$3,215,340	\$0	\$1,215,340	\$0	\$0
	FF	\$1,968,409,888	\$0	\$1,994,162,531	\$17,279,402	\$19,626,812
(3) Medicaid Mental Health Community Programs; Medicaid Mental Health Fee for Services Payments	Total	\$4,147,628	\$0	\$4,147,628	\$62,214	\$72,550
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$2,073,815	\$0	\$2,073,815	\$31,107	\$36,275
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$0	\$0	\$0	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$2,073,813	\$0	\$2,073,813	\$31,107	\$36,275

Letternote Text Revision Required? Yes: No: If yes, describe the Letternote Text Revision: See Table 1c.

Cash or Federal Fund Name and COFRS Fund Number: Hospital Provider Fee Cash Fund (24A), BCCP Cash Fund (15D), Unclaimed Property Trust Fund (B2A), FF: Title XIX

Reappropriated Funds Source, by Department and Line Item Name:

Approval by OIT? Yes: No: Not Required:

Schedule 13s from Affected Departments: N/A

Other Information: N/A



DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

John W. Hickenlooper
Governor

*FY 2013-14 Funding Request
November 1, 2012*

Susan E. Birch
Executive Director

Signature

10/23/12
Date

*Department Priority: R-13
1.5% Provider Rate Increase*

Summary of Incremental Funding Change for FY 2013-14	Total Funds	General Fund	FTE
1.5% Provider Rate Increase	\$33,116,630	\$14,578,983	0.0

Request Summary:

The Department requests \$33,116,630 total funds, including \$14,578,983 in General Fund, in FY 2013-14 to increase reimbursement to most providers by 1.5%.

Problem or Opportunity:

During the recent economic recession, the state imposed multiple provider rate reductions to create General Fund relief. Continuation of the rate reductions not only perpetuates the financial strain on providers, but could also potentially put clients' access to health care at risk.

Brief Background:

Since FY 2008-09, the state has shared the burden of the economic crisis with health care providers. The following is a list of select budget reduction items implemented since FY 2008-09: FY 2009-10 BA-33: "Provider Volume and Rate Reductions", FY 2010-11 ES-2: "Medicaid Program Reductions", FY 2010-11 ES-6: "Medicaid Provider Reductions", FY 2010-11 BRI-6: "Medicaid Program Reductions", and FY 2011-12 BA-9: "Medicaid Budget Balancing Reductions". Each request contained either targeted or across-the-board reductions to rates that impacted multiple provider types.

Maintaining the magnitude of rate reductions that has accumulated in the last four years (which varies by provider type) is not sustainable. Without sufficient reimbursement, it is difficult to expand the Medicaid provider network sufficiently to cover the needs of the growing population. In particular, this is true for rural areas throughout Colorado.

Insufficient access to health care can negatively impact long-term costs as clients' conditions are exacerbated due to lack of care. The Department believes it is necessary to provide a degree of relief to providers after four years of reductions to alleviate the financial pressure on businesses, risk to client care, and risk of growing long-term costs.

Proposed Solution:

The Department requests to increase provider rates by 1.5% for services impacted by rate reductions in recent years.

Alternatives:

The current level of reimbursement can be maintained.

Anticipated Outcomes:

By implementing the provider rate increase, the financial strain and risk to client access that

accompanied several years' worth of rate reductions will be reduced.

Assumptions for Calculations:

The Department assumes all provider types impacted by rate reductions since FY 2008-09 would be impacted by the rate increase with the exception of class I nursing facilities, pharmacies, and services provided under the home and community based services (HCBS) waiver for children with autism.

Rate reductions impacting class I nursing facilities were implemented through statutory changes as one-time, limited duration impacts. Under current statute, in FY 2013-14, expenditure for this service will return to the level it would have been absent rate reductions, and thus should not qualify for a rate increase.

Pharmaceutical reimbursement is transitioning to a methodology that reflects the actual costs of purchasing and dispensing medications. Under this methodology, the Department has little flexibility to augment rates due to federal constraints. Further, pharmaceutical reimbursement is unique in that the reimbursement methodology is directly tied to a moving price statistic that increases reimbursement as provider costs increase. As a result, even though pharmacies were impacted by rate reductions like other provider types, pharmacies saw increases to reimbursement as costs increased that other provider types (reimbursed on a fee schedule) did not.

Rates for services provided under the HCBS waiver for children with autism were not reduced in prior years because of the cap on client expenses. Rate reductions would have reduced total client expenditures, and thus allowed for additional services to be provided under the cap. Because the Department did not reduce rates for these services, the Department would not apply this proposed rate increase to these services.

See Appendix A for detailed calculations.

Consequences if not Funded:

Provider reimbursement will remain at current levels.

Cash Fund Projections:

This request includes Cash Funds from the Hospital Provider Fee Cash Fund, Breast and Cervical Cancer Prevention and Treatment Fund, and Unclaimed Property Trust Fund. For information on associated revenues, expenditures, and cash fund balances, please see the Schedule 9 "Cash Funds Report" in Section O of this Budget Request.

Relation to Performance Measures:

Performance Measure 3 – Increase the number of providers participating in Medicaid.
Adequate provider reimbursement is pivotal to achieving this strategic goal.

R-13 Provider Rate Increase
Appendix A: Calculations and Assumptions

Table 1a: FY 2013-14 - Amounts Eligible for Rate Increase by Funding Source
(Includes Budget Actions Not Yet Approved)

Service Category	Total Funds	General Fund	Cash Fund	Federal Funds
Acute Care	\$1,717,576,987	\$744,326,785	\$67,713,370	\$905,536,832
Community Based Long Term Care	\$345,089,671	\$171,673,124	\$838,046	\$172,578,501
PACE	\$75,330,414	\$37,665,207	\$0	\$37,665,207
Service Management	\$34,411,528	\$16,952,700	\$126,532	\$17,332,296
FY 2013-14 R-7 Substance Abuse Benefit	\$415,440	(\$11,820)	(\$282)	\$427,542
FY 2013-14 R-8 Dental Benefit	\$30,803,647	(\$747,621)	\$13,131,511	\$18,419,757
Total Medical Service Premiums	\$2,203,627,687	\$969,858,375	\$81,809,177	\$1,151,960,135
Impact of 1.5% Rate Increase	\$33,054,416	\$14,547,876	\$1,227,138	\$17,279,402
Mental Health Fee-for-service	\$4,147,628	\$2,073,814	\$0	\$2,073,814
Impact of 1.5% Rate Increase	\$62,214	\$31,107	\$0	\$31,107
Total Impact of Rate Increase	\$33,116,630	\$14,578,983	\$1,227,138	\$17,310,509

Table 1b: FY 2014-15 - Amounts Eligible for Rate Increase by Funding Source
(Includes Budget Actions Not Yet Approved)

Service Category	Total Funds	General Fund	Cash Fund	Federal Funds
Acute Care	\$1,868,653,780	\$809,797,215	\$38,664,567	\$1,020,191,998
Community Based Long Term Care	\$388,491,487	\$193,264,397	\$943,447	\$194,283,643
PACE	\$89,019,409	\$44,509,705	\$0	\$44,509,704
Service Management	\$37,705,579	\$18,585,958	\$0	\$19,119,621
FY 2013-14 R-7 Substance Abuse Benefit	(\$1,901,422)	(\$953,140)	(\$33,883)	(\$914,399)
FY 2013-14 R-8 Dental Benefit	\$52,304,279	(\$1,570,715)	\$22,611,454	\$31,263,540
Total Medical Service Premiums	\$2,434,273,112	\$1,063,633,420	\$62,185,585	\$1,308,454,107
Impact of 1.5% Rate Increase	\$36,514,097	\$15,954,501	\$932,784	\$19,626,812
Mental Health - Fee-for-service	\$4,836,640	\$2,418,320	\$0	\$2,418,320
Impact of 1.5% Rate Increase	\$72,550	\$36,275	\$0	\$36,275
Total Impact of Rate Increase	\$36,586,647	\$15,990,776	\$932,784	\$19,663,087

Table 1c: Impact by Cash Fund with 1.5% Increase (Medical Services Premiums Only)

Fiscal Year	Hospital Provider Fee Fund	Breast and Cervical Cancer Prevention and Treatment Fund	Unclaimed Property Trust Fund	Total Cash Fund Impact
Percentages	82.72%	1.58%	15.70%	100%
FY 2013-14	\$1,015,107	\$19,372	\$192,659	\$1,227,138
FY 2014-15	\$771,612	\$14,726	\$146,446	\$932,784

(1) The increase to rates will not impact the contribution amount from the Medicaid Buy-in Fund.