

**Schedule 13**

**Funding Request for the FY 2015-16 Budget Cycle**

**Department of Health Care Policy and Financing**

PB Request Number R-12

**Request Titles**

R-12 Community and Targeted Provider Rate Increase

Dept. Approval By:	Josh Block		—	Supplemental FY 2014-15
			X	Change Request FY 2015-16
			—	Base Reduction FY 2015-16
OSPB Approval By:			—	Budget Amendment FY 2015-16

Line Item Information	Fund	FY 2014-15		FY 2015-16		FY 2016-17
		Appropriation	Request	Base Request	FY 2015-16	Continuation
	Total	\$6,213,082,980	\$0	\$6,260,489,404	\$32,910,761	\$40,356,450
	FTE	-	-	-	-	-
Total of All Line Items	GF	\$1,841,262,753	\$0	\$1,890,418,928	\$11,389,124	\$13,748,352
	CF	\$656,530,311	\$0	\$659,507,706	\$716,803	\$833,125
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$3,715,289,916	\$0	\$3,710,562,770	\$20,804,834	\$25,774,973

Line Item Information	Fund	FY 2014-15		FY 2015-16		FY 2016-17
		Appropriation	Request	Base Request	FY 2015-16	Continuation
	Total	\$5,724,352,770	\$0	\$5,768,568,225	\$27,930,208	\$35,208,693
02. Medical Services	CF	\$622,898,368	\$0	\$628,705,349	\$379,818	\$485,498
Premiums - Medical	FF	\$3,492,641,948	\$0	\$3,485,278,253	\$18,507,285	\$23,396,659
and LT Care Services for Medicaid Eligible Indvls	GF	\$1,608,812,454	\$0	\$1,654,584,623	\$9,043,105	\$11,326,536

	Total	\$7,107,049	\$0	\$7,119,717	\$75,092	\$89,841
	CF	\$0	\$0	\$0	\$666	\$797
03. Behavioral Health Community Programs - Behavioral Health Fee-for-Service Payments	FF	\$3,607,360	\$0	\$3,628,550	\$51,823	\$62,002
	GF	\$3,499,689	\$0	\$3,491,167	\$22,603	\$27,042

	Total	\$347,106,514	\$0	\$346,283,894	\$3,520,301	\$3,630,334
	CF	\$33,628,301	\$0	\$30,798,715	\$336,283	\$346,794
04. Office of Community Living - Adult Comprehensive Services	FF	\$160,845,358	\$0	\$161,214,181	\$1,641,308	\$1,692,610
	GF	\$152,632,855	\$0	\$154,270,998	\$1,542,710	\$1,590,930

	<b>Total</b>	<b>\$70,648,433</b>	<b>\$0</b>	<b>\$74,777,870</b>	<b>\$747,779</b>	<b>\$791,487</b>
04. Office of	FF	\$31,938,485	\$0	\$34,150,260	\$341,503	\$361,464
Community Living -	GF	\$38,709,948	\$0	\$40,627,610	\$406,276	\$430,023
Adult Supported						
Living Services						

	<b>Total</b>	<b>\$24,610,892</b>	<b>\$0</b>	<b>\$24,665,461</b>	<b>\$246,655</b>	<b>\$247,202</b>
04. Office of	FF	\$12,530,479	\$0	\$12,605,609	\$126,056	\$126,336
Community Living -	GF	\$12,080,413	\$0	\$12,059,852	\$120,599	\$120,866
Children's Extensive						
Support Services						

	<b>Total</b>	<b>\$29,300,733</b>	<b>\$0</b>	<b>\$29,095,579</b>	<b>\$290,956</b>	<b>\$288,918</b>
04. Office of	FF	\$13,706,137	\$0	\$13,665,625	\$136,656	\$135,699
Community Living -	GF	\$15,594,596	\$0	\$15,429,954	\$154,300	\$153,219
Case Management						

	<b>Total</b>	<b>\$6,828,718</b>	<b>\$0</b>	<b>\$6,843,859</b>	<b>\$68,439</b>	<b>\$68,590</b>
04. Office of	GF	\$6,828,718	\$0	\$6,843,859	\$68,439	\$68,590
Community Living -						
Family Support						
Services						

	<b>Total</b>	<b>\$65,754</b>	<b>\$0</b>	<b>\$65,892</b>	<b>\$642</b>	<b>\$628</b>
04. Office of	CF	\$3,642	\$0	\$3,642	\$36	\$36
Community Living -	GF	\$62,112	\$0	\$62,250	\$606	\$592
Preventive Dental						
Hygiene						

	<b>Total</b>	<b>\$3,062,117</b>	<b>\$0</b>	<b>\$3,068,907</b>	<b>\$30,689</b>	<b>\$30,757</b>
04. Office of	FF	\$20,149	\$0	\$20,292	\$203	\$203
Community Living -	GF	\$3,041,968	\$0	\$3,048,615	\$30,486	\$30,554
Eligibility						
Determination and						
Waiting List						
Management						

Letternote Text Revision Required?	Yes	<u>X</u>	No		<b>If Yes, describe the Letternote Text Revision:</b>
					See Appendix
Cash or Federal Fund Name and CORE Fund Number:					Medical Services Premiums: \$197,939 Hospital Provider Fee Cash Fund (24A0) and \$308,558 Adult Dental Cash Fund (28C0); Office of Community Living: Client Cash Sources.
Reappropriated Funds Source, by Department and Line Item Name:					N/A
Approval by OIT?	Yes		No		<b>Not Required:</b> <u>X</u>
Schedule 13s from Affected Departments:					N/A
Other Information:					N/A



#### ***Cost and FTE***

- The Department requests \$32,910,761 total funds, including \$11,389,124 General Fund in FY 2015-16.

#### ***Current Program***

- Provider reimbursement for most Medicaid services does not change over time absent increases or decreases to appropriation by the General Assembly. Subsequently, rates for many services do not change based on the costs of providing the service. Provider costs can increase with inflation and other economic factors, or decrease with new technology and efficiencies.
- In FY 2012-13 and FY 2013-14, the General Assembly appropriated funds to partially restore reimbursement to prerecession levels as providers experienced multiple rate reductions since FY 2009-10.

#### ***Problem or Opportunity***

- For some services, reimbursement is insufficient to maintain provider participation in the long run.
- An inconsistent, fixed fee schedule that has not been updated to account for changes in costs and potential efficiencies can create incentives for providers to utilize higher cost, less effective, and less efficient services.

#### ***Consequences of Problem***

- Reduced provider participation reduces clients' access to health care. Reduced access to health care can, in turn, result in poor client outcomes and subsequent higher costs for the State.
- Incentives for providers created by insufficient and/or inconsistent reimbursement can result in utilization of services that are inefficient, less effective, and more costly. As with access issues, there are negative impacts for client outcomes and fiscal impacts for the State.

#### ***Proposed Solution***

- The Department requests \$32,910,761 in total funds for FY 2015-16 to increase provider rates by 1%.
- Investing in adequate provider rates and aligning payment with high value services would result in better outcomes for clients and lower costs for the State.



# COLORADO

Department of Health Care  
Policy & Financing

FY 2015-16 Funding Request | November 1, 2014

John W. Hickenlooper  
Governor

Susan E. Birch  
Executive Director

**Department Priority: R-12**

**Request Detail: Community and Targeted Provider Rate Increase**

Summary of Incremental Funding Change for FY 2015-16	Total Funds	General Fund
Community and Targeted Provider Rate Increases	\$32,910,761	\$11,389,124

**Problem or Opportunity:**

Investing in adequate provider rates and aligning payment with high-value services is a critical component of ensuring clients have sufficient access to care, quality outcomes are achieved, and services provided are cost-effective.

Many services provided to Medicaid clients are paid at a fixed level that does not change unless the General Assembly explicitly approves an increase or decrease to reimbursement. Throughout the recession, provider rates were reduced repeatedly. However, in FY 2012-13 and FY 2013-14 the General Assembly appropriated funding to partially restore provider rates, bringing provider rates closer to prerecession levels. However, many services continue to be reimbursed below historical levels. Inadequate reimbursement is unsustainable in the long run as it would likely limit access to care for Medicaid clients. Subsequently, limited access to care can result in poor quality outcomes and higher costs for the State as conditions that could have been prevented exacerbate in the absence of early intervention.

In addition to addressing inadequate reimbursement, there is an opportunity for the Department to establish policy that incentivizes the use of high value services and disincentivizes low-value procedures. Reimbursement for most services does not change, even though the cost of providing those services increases over time with inflation and other economic factors. Further, reimbursement for a service does not change relative to alternative services that may have shown to produce better client outcomes at a lower long term cost. Consequently, the Medicaid fee schedule does not truly incentivize providers to provide the most clinically effective, cost efficient services. In fact, because the fee schedule has not changed to accommodate the aforementioned factors, incentives to bill high volume, low efficacy procedures likely exists. This is not a problem that can be resolved with an across-the-board rate increase.

**Proposed Solution:**

The Department requests \$32,910,761 total funds, \$10,482,785 General Fund, for FY 2015-16 to increase provider rates for eligible providers. The Department would use half of the funding to provide a 0.5% rate increase for most services and use funding equal to a 0.5% rate increase in order to provide targeted increases to specific services.

In aggregate, the increases would help address adequacy of payment. Additionally, the Department would use targeted rate increases to specifically address the underlying incentive structure inherent in the Medicaid fee schedule, in order to promote utilization of high quality, cost effective procedures that ultimately improve client outcomes and reduce expenditures for the State. In cases where rates are insufficient to promote sufficient access to services, targeted rate increases would also be used.

HCPF Legislative Request for Information #1 requested that the Department submit a plan to the JBC for an ongoing annual process to address disparities in Medicaid rates. The Department contracted with the Public Consulting Group to develop a proposal based on research of insurance industry (public and private) best practices. The Department submitted its proposal on November 1, 2014; however, because that proposal requires specific approval from the General Assembly, it is possible the process could not be used for the FY 2015-16 budget cycle.

Even though the annual process has not yet been approved, it is important that the Department receive community input before proposing targeted rate increases in order to properly identify where targeted rate increase should be applied. For FY 2015-16 rate increases, the Department will work with stakeholders and interested legislators from November 2014 through January 2015 to develop a proposal that will be presented to the Joint Budget Committee by February 15, 2015. The Department requests a separate hearing with the Joint Budget Committee in February 2015 to present its rate increase proposals. This process would allow for adequate time for the Joint Budget Committee to receive input from stakeholders prior to the Department's Figure Setting, which typically occurs during the second week of March.

***Anticipated Outcomes:***

Implementing a provider rate increase would reduce the financial strain and risk to client access that accompanied several years' worth of rate reductions that have only partially been restored. Additionally, targeted increases would more appropriately align incentives, encouraging positive outcomes for clients and allowing the Department to pay for value rather than volume of services. Access issues related to inappropriate reimbursement rates, particularly important with the Medicaid expansion and exacerbated in rural areas, would be partially alleviated.

Providing adequate reimbursement to providers encourages participation in Medicaid and therefore increases client access, which aligns with the Department's Strategic Plan.

***Assumptions and Calculations:***

Implementing a provider rate increase would reduce the financial strain and risk to client access that accompanied several years' worth of rate reductions that have only partially been restored. Additionally, targeted increases would more appropriately align incentives, encouraging positive outcomes for clients and allowing the Department to pay for value rather than volume of services. Access issues related to inappropriate reimbursement rates, particularly important with the Medicaid expansion and exacerbated in rural areas, would be partially alleviated.

Providing adequate reimbursement to providers encourages participation in Medicaid and therefore increases client access, which aligns with the Department's Strategic Plan.

### ***Assumptions and Calculations:***

Estimates are based on the Department's FY 2015-16 base budget. As the Department will be revising Medicaid caseload and per capita cost forecasts through the supplemental process, adjustments to estimates may be necessary in the future.

Although these rate increases would affect most Medicaid providers, a number of providers would be exempted from rate increases or receive different rate increases. These distinctions include:

- A portion of physician and EPSDT services are not eligible for an increase in rates due to rates already being increased under Section 1202 of the Affordable Care Act and subsequently continued under state authority.
- A portion of expenditure related to non-medical emergency transportation services is not eligible for an increase due to services rendered under a fixed price contract.
- Dental administrative payments are ineligible for rate increases because the contract was competitively procured, with payment rates agreed upon during the procurement.
- Reimbursement to pharmacies are not eligible for the rate increase. Pharmaceutical reimbursement has transitioned to a methodology that reflects the actual costs of purchasing and dispensing medications. 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.
- Rates for rural health clinics (RHCs) are based on actual cost or the Medicare upper payment limit. RHCs have previously not been subject to rate decreases or increases due to the unique manner in which these rates are calculated.
- Rates for Federally Qualified Health Centers would be ineligible due to recent increases bringing reimbursement for this provider type to the upper limit of allowed amount under the current reimbursement methodology.
- Rates for services provided under the home and community based services (HCBS) waiver for children with autism would be ineligible because of the cap on client expenses. An increase in rates would reduce the amount of services that clients are able to receive. For this reason, the Department has not applied rate reductions to this program in prior years and would not apply a rate increase to the reimbursement of these services.<sup>1</sup>
- Class I and Class II nursing facility rates are determined in accordance with statutory guidelines which has the effect of increasing reimbursement to most providers each year, based on providers' cost. Therefore, the Department is not requesting funding to increase nursing facility rates. In addition, the Department would exempt hospice rates that set in part as a function of nursing facility rates and in part

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<sup>1</sup> The Department has submitted a separate budget action regarding the Children with Autism waiver program, requesting to allow the cap on client expenses to be adjusted for appropriated rate increases. If approved, the rationale for exempting this program from rate increases would no longer be valid, and it may be appropriate to include these services in any approved rate increase for FY 2015-16. If requested, the Department can provide the incremental cost associated with increasing rates for services in the Children with Autism waiver program.

as a result of federal requirements. Hospice rates that are not related to nursing facility rates are included in the Department's proposal.

- Physical health managed care programs, including risk-based health maintenance organizations such as the providers for the Program of All-Inclusive Care for the Elderly (PACE), are negotiated within the parameters of their respective rate setting methodology and may or may not be impacted by rate increases.
- Risk-based physical health managed care programs for Medicaid and the Child Health Plan *Plus* (CHP+) and behavioral health organizations (BHO) would not receive direct rate increases as part of this change request. Rates are set in accordance with federal regulation and actuarial standards, which do not generally permit general provider rate increases. The Department notes, however, that BHO and CHP+ rates generally increase in response to provider cost, and rates Medicaid managed care organizations would increase indirectly based on increases applied to fee-for-service rates.

See Appendix A for detailed calculations.

R-12 Community and Targeted Provider Rate Increase  
Appendix A: Calculations and Assumptions

<b>Table 1a: FY 2015-16 - Amounts Eligible for Rate Increase by Funding Source (Includes Budget Actions Not Yet Approved)</b>				
<b>Long Bill Group</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Cash Funds<sup>(1)</sup></b>	<b>Federal Funds</b>
<b>(2) Medical Services Premiums</b>				
Acute Care	\$2,317,266,793	\$677,253,014	\$37,841,117	\$1,602,172,662
Community Based Long Term Care	\$444,092,656	\$216,234,601	\$0	\$227,858,055
Program for All-Inclusive Care for the Elderly	\$0	\$0	\$0	\$0
Service Management	\$31,661,269	\$10,822,841	\$140,654	\$20,697,774
<b>Total Medical Services Premiums</b>	<b>\$2,793,020,718</b>	<b>\$904,310,456</b>	<b>\$37,981,771</b>	<b>\$1,850,728,491</b>
<b>Impact of 1% Rate Increase</b>	<b>\$27,930,208</b>	<b>\$9,043,105</b>	<b>\$379,818</b>	<b>\$18,507,285</b>
<b>(1) Amount of cash fund by cash fund:</b> Hospital Provider Fee: \$219,361; Breast and Cervical Cancer Prevention and Treatment Fund: \$15,063; Adult Dental Fund: \$145,394				
<b>(3) Behavioral Health Community Programs</b>				
Mental Health Fee-for-Service	\$7,509,126	\$2,260,265	\$66,578	\$5,182,283
<b>Impact of 1% Rate Increase</b>	<b>\$75,092</b>	<b>\$22,603</b>	<b>\$666</b>	<b>\$51,823</b>
<b>(1) Amount of cash fund by cash fund</b> Hospital Provider Fee: \$666				

R-12 Community and Targeted Provider Rate Increase  
Appendix A: Calculations and Assumptions

<b>Table 1a: FY 2015-16 - Amounts Eligible for Rate Increase by Funding Source (Continued)</b>				
<b>Long Bill Group</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Cash Funds<sup>(1)</sup></b>	<b>Federal Funds</b>
<b>(7) Office of Community Living</b>				
Adult Comprehensive Services	\$352,030,121	\$154,270,998	\$33,628,301	\$164,130,822
<b>Impact of 1% Rate Increase</b>	<b>\$3,520,301</b>	<b>\$1,542,710</b>	<b>\$336,283</b>	<b>\$1,641,308</b>
Adult Supported Living Services	\$74,777,870	\$40,627,610	\$0	\$34,150,260
<b>Impact of 1% Rate Increase</b>	<b>\$747,779</b>	<b>\$406,276</b>	<b>\$0</b>	<b>\$341,503</b>
Family Support Services	\$6,843,859	\$6,843,859	\$0	\$0
<b>Impact of 1% Rate Increase</b>	<b>\$68,439</b>	<b>\$68,439</b>	<b>\$0</b>	<b>\$0</b>
Children's Extensive Support Services	\$24,665,461	\$12,059,852	\$0	\$12,605,609
<b>Impact of 1% Rate Increase</b>	<b>\$246,655</b>	<b>\$120,599</b>	<b>\$0</b>	<b>\$126,056</b>

R-12 Community and Targeted Provider Rate Increase  
Appendix A: Calculations and Assumptions

<b>Table 1a: FY 2015-16 - Amounts Eligible for Rate Increase by Funding Source (Continued)</b>				
<b>Long Bill Group</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Cash Funds<sup>(1)</sup></b>	<b>Federal Funds</b>
Case Management	\$29,095,579	\$15,429,954	\$0	\$13,665,625
<b>Impact of 1% Rate Increase</b>	<b>\$290,956</b>	<b>\$154,300</b>	<b>\$0</b>	<b>\$136,656</b>
Eligibility Determination and Waiting List Management	\$3,068,907	\$3,048,615	\$0	\$20,292
<b>Impact of 1% Rate Increase</b>	<b>\$30,689</b>	<b>\$30,486</b>	<b>\$0</b>	<b>\$203</b>
Preventive Dental Hygiene	\$64,239	\$60,597	\$3,642	\$0
<b>Impact of 1% Rate Increase</b>	<b>\$642</b>	<b>\$606</b>	<b>\$36</b>	<b>\$0</b>
<b>Total Impact</b>	<b>\$32,910,761</b>	<b>\$11,389,124</b>	<b>\$716,803</b>	<b>\$20,804,834</b>
<b>(1) Amount of cash fund by cash fund</b>				
Child Welfare Transition Fund: \$28,296; Cash from Clients: \$307,987; Local Funds: \$36				

R-12 Community and Targeted Provider Rate Increase  
Appendix A: Calculations and Assumptions

<b>Table 1b: FY 2016-17 - Amounts Eligible for Rate Increase by Funding Source</b>				
<b>Long Bill Group</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Cash Funds<sup>(1)</sup></b>	<b>Federal Funds</b>
<b>(2) Medical Services Premiums</b>				
Acute Care	\$2,964,153,301	\$866,314,471	\$48,404,816	\$2,049,434,014
Community Based Long Term Care	\$524,091,004	\$255,186,857	\$0	\$268,904,147
Program for All-Inclusive Care for the Elderly	\$0	\$0	\$0	\$0
Service Management	\$32,624,967	\$11,152,264	\$144,935	\$21,327,768
<b>Total Medical Services Premiums</b>	<b>\$3,520,869,272</b>	<b>\$1,132,653,592</b>	<b>\$48,549,751</b>	<b>\$2,339,665,929</b>
<b>Impact of 1% Rate Increase</b>	<b>\$35,208,693</b>	<b>\$11,326,536</b>	<b>\$485,498</b>	<b>\$23,396,659</b>
<b>(1) Amount of cash fund by cash fund</b>				
Hospital Provider Fee: \$280,247; Breast and Cervical Cancer Prevention and Treatment Fund: \$19,269; Adult Dental Fund: \$185,982				
<b>(3) Behavioral Health Community Programs</b>				
Mental Health Fee-for-Service	\$8,984,084	\$2,704,231	\$79,656	\$6,200,197
<b>Impact of 1% Rate Increase</b>	<b>\$89,841</b>	<b>\$27,042</b>	<b>\$797</b>	<b>\$62,002</b>
<b>(1) Amount of cash fund by cash fund</b>				
Hospital Provider Fee: \$797				

R-12 Community and Targeted Provider Rate Increase  
Appendix A: Calculations and Assumptions

<b>Table 1b: FY 2016-17 - Amounts Eligible for Rate Increase by Funding Source (Continued)</b>				
<b>Long Bill Group</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Cash Funds<sup>(1)</sup></b>	<b>Federal Funds</b>
<b>(7) Office of Community Living</b>				
Adult Comprehensive Services	\$363,033,459	\$159,093,017	\$34,679,414	\$169,261,028
<b>Impact of 1% Rate Increase</b>	<b>\$3,630,334</b>	<b>\$1,590,930</b>	<b>\$346,794</b>	<b>\$1,692,610</b>
Adult Supported Living Services	\$79,148,675	\$43,002,315	\$0	\$36,146,360
<b>Impact of 1% Rate Increase</b>	<b>\$791,487</b>	<b>\$430,023</b>	<b>\$0</b>	<b>\$361,464</b>
Family Support Services	\$6,859,034	\$6,859,034	\$0	\$0
<b>Impact of 1% Rate Increase</b>	<b>\$68,590</b>	<b>\$68,590</b>	<b>\$0</b>	<b>\$0</b>
Children's Extensive Support Services	\$24,720,151	\$12,086,592	\$0	\$12,633,559
<b>Impact of 1% Rate Increase</b>	<b>\$247,202</b>	<b>\$120,866</b>	<b>\$0</b>	<b>\$126,336</b>

R-12 Community and Targeted Provider Rate Increase  
Appendix A: Calculations and Assumptions

<b>Table 1b: FY 2016-17 - Amounts Eligible for Rate Increase by Funding Source (Continued)</b>				
<b>Long Bill Group</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Cash Funds<sup>(1)</sup></b>	<b>Federal Funds</b>
Case Management	\$28,891,862	\$15,321,919	\$0	\$13,569,943
<b>Impact of 1% Rate Increase</b>	<b>\$288,918</b>	<b>\$153,219</b>	<b>\$0</b>	<b>\$135,699</b>
Eligibility Determination and Waiting List Management	\$3,075,712	\$3,055,375	\$0	\$20,337
<b>Impact of 1% Rate Increase</b>	<b>\$30,757</b>	<b>\$30,554</b>	<b>\$0</b>	<b>\$203</b>
Preventive Dental Hygiene	\$62,759	\$59,201	\$3,558	\$0
<b>Impact of 1% Rate Increase</b>	<b>\$628</b>	<b>\$592</b>	<b>\$36</b>	<b>\$0</b>
<b>Total Impact</b>	<b>\$40,356,450</b>	<b>\$13,748,352</b>	<b>\$833,125</b>	<b>\$25,774,973</b>
<b>(1) Amount of cash fund by cash fund</b>				
Child Welfare Transition Fund: \$29,180; Cash from Clients: \$317,614; Local Funds: \$36				