



Kim Bimestefer
Colorado Department of Health Care Policy and Financing
303 East 17th Avenue
Denver, CO 80203
Delivered Electronically: Kim.Bimestefer@co.us

August 21, 2024

Dear Kim

The Colorado Healthcare Affordability and Sustainability Enterprise (CHASE), financed by collecting fees from hospitals, has provided payments to hospitals for Medicaid patients and uncompensated care, has funded expansion of health care coverage in the Medicaid and Child Health Plan Plus (CHP+) programs, and has supported the program's administrative costs. The past several years, however, use of hospital fees to fund Medicaid expansion and administrative costs have significantly outweighed net funding to hospitals. During this same time, costs for providing care to Medicaid patients and uncompensated care have increased at unprecedented rates creating unsustainable financial strain on hospitals and threatening access to care.

While the state's General Fund cannot alleviate the strain, there is a promising opportunity to increase federal funding to Colorado, strengthen the Medicaid program, and stabilize our state's health care infrastructure through reforms to the CHASE program and implementation of a State Directed Payments program. This is a win-win-win opportunity:

- Win for the State of Colorado because we will leverage additional federal funding to increase investment in Medicaid without requiring additional General Fund expenditures; and
- Win for Colorado's hospitals, inclusive of behavioral health hospitals, because we will reduce under and uncompensated care and help to alleviate financial strain; and
- Win for Health First Colorado members and other Coloradans because we protect access to care by fortifying support for behavioral health services, safety net facilities, and rural hospitals.

The Colorado Hospital Association (CHA) and has been working with and learning from our members, hospital and Medicaid leaders in other states, and national experts in Medicaid financing for several months to explore establishment of a new State Directed Payment programs and potential reforms to the existing CHASE program. Based on our research and work to date, ***we are optimistic that with your partnership and collaboration we could draw up to \$290 million in new federal Medicaid funding for Colorado.*** We are eager to partner with you and your colleagues from the Colorado Department of Health Care Policy and Financing (HCPF) and the Governor's Office of State Planning and Budgeting, to turn this idea into a more concrete proposal that can be submitted to the Centers for Medicare and Medicaid Services (CMS) for approval.

Below is our proposal for a collaborative working arrangement to advance this work. We offer this as a starting point for your consideration and look forward to your feedback. We respectfully request a response to this proposal as soon as practicable and would request we convene the workgroup in September.

Jeff

Cc: Nancy Dolson, HCPF, CHA Board of Trustees

Partnership Proposal to Develop State Directed Payment Program for Colorado

Below is our proposed approach to a collaborative working agreement. We offer this as a starting point for discussion and look forward to receiving your feedback.

Objective: Establish a new Medicaid State Directed Payment Program and reform the existing CHASE / Upper Payment Limit (UPL) Program. Strengthen investment in Colorado Medicaid without expending additional General Fund dollars.

Approach: Establish a collaborative work group so that HCPF can develop a mutually supported proposal to submit to the Centers for Medicare and Medicaid Services by March 2025.

Activities:

- Draft and agree to a scope of work, timeline, goals and ground rules for collaboration
 - Discuss and determine if a neutral, 3rd party facilitator is needed to support the work group’s activities
- Engage in shared learning about other State Directed Payment Programs and federal guidelines for these programs to establish common understanding among all work group members
- Develop and review potential scenarios for a State Directed Payment Program for Colorado
- Update and re-evaluate Colorado’s Upper Payment Limit (UPL) program to align with the new State Directed Payment Program and to achieve more rational and policy-based principles
- Assess the requirements or needs for statutory and/ or rule making changes
- Develop mutually supported proposal(s) to address the creation of a State Directed Payment Program and / or reforms to Colorado’s existing Upper Payment Limit program
- Develop talking points and an outreach plan for engaging legislators and other state-based stakeholders
- Draft and submit materials to CMS approval

Rough Timeline:

| | Sep-24 | Oct-24 | Nov-24 | Dec-24 | Jan-25 | Feb-25 | Mar-25 |
|---|--------|--------|--------|--------|--------|--------|--------|
| Convene group: agree to scope, timeline, goals & ground rules | | | | | | | |
| Present research to establish shared baseline | | | | | | | |
| Develop & evaluate proposals or scenarios for State Directed Payment Program | | | | | | | |
| Evaluate existing UPL Program with goal of identifying possible reforms to simplify and strengthen | | | | | | | |

| | | | | | | | |
|---|--|--|--|--|--|--|--|
| Finalize model assumptions and decisions | | | | | | | |
| Identify statute and federal approvals / actions required to implement | | | | | | | |
| Develop stakeholder engagement plan & draft communications materials | | | | | | | |
| Draft, revise and refine formal proposals and required legal documents | | | | | | | |
| Execute on stakeholder engagement | | | | | | | |
| Submit federal and state materials | | | | | | | |

Work Group Composition: To be nimble and effective, we suggest the group be 9 to 12 members, including:

- 2 to 3 HCPF staff
- 1 to 2 representatives of the Governor’s Office
- 1 HCPF-retained consultant
- 2 to 3 CHA staff
- 1 CHA-retained consultant
- Others, as necessary

Required Resources: CHA is willing to dedicate staff and consultant time, knowledge and expertise to support this work. We’re also open to contributing modest financial resources to support specific expenses, potentially including but not limited to hiring a neutral facilitator to support the work group.

Background & Rationale for This Work: Colorado has successfully utilized supplemental payments as a federal financing strategy in Medicaid for decades. In fact, supplemental payments make up nearly 50% of hospital reimbursement for Medicaid in Colorado and are a core component of reimbursement for patients receiving care in hospital settings. They are financed through assessment of fees on hospitals, leveraged with matching funds from the federal government, and provide financing mechanisms that do not put burden on the State’s budget. Historically, fee-for-service rates have not kept up with health care costs, putting more reliance on supplemental payments to maintain Medicaid hospital reimbursement. Without these supplemental payments, hospitals would experience enormous and unsustainable shortfall on Medicaid reimbursement, resulting in deterioration of access to services for Medicaid patients, especially in rural areas, or increased need to shift costs to other payer sources.

The use of hospital fees to fund CHASE program priorities is increasingly shifting to support Medicaid expansion and the State’s administration costs. **Since 2015, fees charged to hospitals have increased by 187% while net payment to support Medicaid reimbursement has increased 5%.** Meanwhile, fees to support the State’s costs for Medicaid expansion and administration have increased 655% and 258%, respectively. This has resulted in a significant shift in what fees assessed on hospitals are used for. In recent years, nearly 90% of federal funding

(over \$3 billion) is directed to the State with only about 10% of federal funding (net of fees) directed to support hospital payments.

Accessing available federal Medicaid financing programs, using fees assessed on hospitals, could provide new federal funding and begin to rebalance the use of hospital fees and federal funds to meet the goals of the CHASE program. An additional federal program, *directed payments in Medicaid managed care (State Directed Payments)*, was created as a comprehensive update to CMS Medicaid managed care regulations in 2016. The updated rules created a new option for states to direct payments to providers under certain circumstances. CMS required that directed payments be tied to utilization and delivery of services under the managed care contract with additional requirements and provisions as part of 42 CFR §438.6(c).

Managed care entities in Colorado are represented by Regional Accountable Entities (RAEs), Rocky Mountain Health Plan, and Denver Health Medical Plan that receive capitation payments and take financial risk to provide Medicaid managed care services. These entities contract with hospitals to provide behavioral health services and a full scope of services in the western slope and Denver metro area to Medicaid patients. In total, Medicaid managed care represents approximately 15% of hospital costs. Using additional fees on hospitals to finance federal matching support, there is a significant opportunity to draw down federal funds that Colorado is missing out on today.

The new State Directed Payment program, working within the CHASE, will require coordination with the current upper payment limit (UPL) program. This provides a unique opportunity to reevaluate the current UPL model by creating a more standardized, sustainable, less complex, and more predictable UPL model using CMS principles (e.g. broad-based fees and payments tied to Medicaid volume).

Together, implementation of directed payments for Medicaid managed care and updating the current UPL models and formulas can create a more sustainable future of the CHASE program while meeting the CHASE founding principles:

- Increase hospital reimbursement for care provided to Medicaid patients and uninsured patients
- Fund hospital quality incentive payments
- Increase Medicaid and Child Health Plan Plus (CHP+) coverage to reduce uncompensated care
- Pay administrative costs of the CHASE

As you are aware, many states have leveraged this important opportunity to stabilize and strengthen their Medicaid programs. Colorado can and should do the same, and we look forward to partnering with you on this work.