CHASE
Colorado Healthcare Affordability and Sustainability Enterprise

State-Directed Payments Program Proposal

June 20, 2025

Contents

I. State Directed Payments—Opportunity for Colorado

State Directed Payments (SDPs) are financial mechanisms that enable state Medicaid programs to instruct managed care organizations (MCOs) to make targeted payments to health care providers, typically linked to efforts to improve care quality and enhance access to services.[1] State Directed payments work by designating provider classes and enabling MCOs to pay providers up to the Average Commercial Rate[2] (ACR) rather than the standard Medicaid reimbursement rate. SDP programs exist in over 40 states and a state may have several programs; each aimed at providing certain incentives to encourage certain outcomes.

Colorado has a robust hospital provider fee program called the Colorado Healthcare Affordability and Sustainability Enterprise (CHASE). The success of the hospital provider fee is evident through an average increase of $450 million per year of net new funds to hospitals, as well as Health First Colorado (Colorado's Medicaid program) and Child Health Plan *Plus* (CHP+) coverage for more than 400,000 Coloradans, and an improvement in Medicaid's hospital payment compared to cost ratio - that is a reduction in the need to shift costs to private payers - from 54 cents on the dollar to 79 cents on the dollar.

Health care affordability remains a top concern for communities across Colorado, and the addition of an SDP program represents an opportunity to strengthen investments in Health First Colorado and advance CHASE's four statutory goals[3] without expending additional state budget dollars.

II. Workgroup Mandate—Directed Payments' Opportunity for Colorado

Recognizing the opportunity SDPs provide as a way to maximize federal dollars to fund Health First Colorado, the CHASE Board formally chartered a workgroup that began its work in November and December 2024. The workgroup's objective was to "develop comprehensive recommendations for revisions to CHASE, including the addition of a State Directed Payment (SDP) Program for

[1] State Directed Payments | Medicaid
[2] ACR is the average rate paid for services by the highest claiming third-party payers for specific services as measured by claims volume
[3] Colorado Healthcare Affordability and Sustainability Enterprise Act of 2017, Section 25.5-4-402.4, Colorado Revised Statutes

CHASE Board consideration, such that the Colorado Department of Health Care Policy and Financing (HCPF) can develop and advance a broadly supported proposal to submit to the federal Centers for Medicare and Medicaid Services (CMS) for implementation to begin no later than July 1, 2025."[4]

The group was charged with bringing to the Board proposals that address the following questions:

- How does the recommendation(s) align with the goals of the CHASE Program as outlined in statute?
    - Maximize reimbursement to hospitals for care for Medicaid members and uninsured patients subject to federal limits
    - Increase the number of hospitals benefitting from the CHASE fee and minimize those hospitals that suffer losses
    - Support improvements in the quality of hospital care
    - Support the expanded health care coverage for the Health First Colorado and CHP+ programs
- Is legislation and/or changes to state regulations necessary to implement the recommendations?
- How do the recommendations align with federal requirements? Are there any emerging or enacted changes to federal requirements that may affect these recommendations?
- What are the impacts on the CHASE program?
    - How do the net gains (losses) for hospitals compare to the CHASE status quo?
    - Is there any increased risk to expansion populations' health care coverage due to insufficient fees?
- What are the available funding source(s)?
- What are the different types of SDP and which best meet the workgroup's objective?
- Which services and provider types should be included in the SDP?

The workgroup has addressed these questions in their proposals.

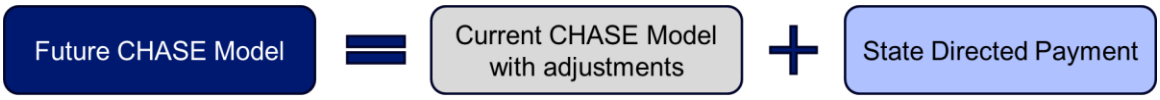
[4] CHASE Workgroup Charter

III. SDP Workgroup and Process

The workgroup was selected by the CHASE Board and comprised of eight members representing the diverse perspectives of Colorado's health care ecosystem. The members are:

- Alison Sbrana, HFC Member, Consumer
- Annie Lee, President & CEO, Colorado Access
- Emily King, Senior Policy Advisor/Deputy Director of the Office of Saving People Money on Health Care, Governor's Office
- Josh Block, Deputy Chief Financial Officer, HCPF
- Dr. Kimberley Jackson, CHASE Board Vice President
- Nancy Dolson, Special Financing Division Director, HCPF
- Shauna Lorenz, Partner, Gjerset & Lorenz LLP
- Tom Rennell, Senior Vice President Financial Policy and Data Analytics, CHA

The workgroup met 14 times and, with the support of HCPF staff and consultants, developed parameters for Colorado's first SDP program and revisions to the current CHASE program that together form the future CHASE model.

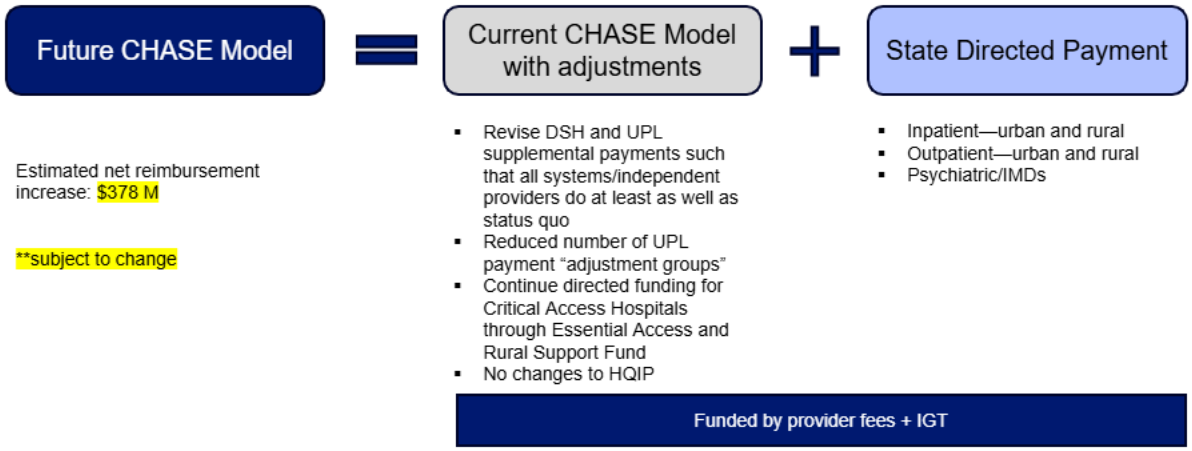


There has been increased scrutiny from the Trump administration and Congress regarding the scope and use of SDP programs and provider fee financing, reflected in the One Big Beautiful Bill Act currently being considered. This scrutiny made it vital that Colorado pursue their SDP program with all possible speed to ensure that its proposal be submitted timely for consideration by CMS.

IV. Summary of Proposed Future CHASE Model Including SDP Parameters

As shown in the graphic above and as required by the CHASE Board, the adoption of a state directed payment requires adjustments to the current CHASE model. Actual fees will be calculated based on net patient revenues, and payments will depend primarily upon utilization and cost. Negotiations

with CMS will result in adjustments, but here is a graphical summary of the proposals:



The details of the proposed program are contained in Colorado's application, also called a preprint. Here is a summary of the key parameters:

- Funding—There are proposed to be two sources of funds for the State Directed Payment:
    - **Adjusted Fee Methodology**:
        - Inpatient and outpatient fees will be assessed as a percentage of hospitals' Net Patient Revenue (NPR). Total fees will not exceed the maximum NPR federal limit in aggregate for all hospitals as allowed by CMS.
        - The following hospitals will be exempt from both inpatient and outpatient fees: State University Teaching Hospitals, Public Institutes for Mental Disease (IMDs), Long Term Acute Care hospitals (LTACs) and Rehabilitation Hospitals.
        - Inpatient and outpatient fees' discounts and exemptions include:
            - Inpatient: 40% discounted fee for Institutes for Mental Disease (IMDs) and essential access rural hospitals are fee-exempt (not including western slope essential access hospitals that receive SDP).
            - Outpatient: 40% discounted fee for IMDs, 45% discounted fee high volume Medicaid metro hospitals

(outside Denver metro), and 79.5% discounted fee for all essential access rural hospitals.

  - **Intergovernmental Transfers (IGTs)** are determined based on the payments projected to be received by IGT hospitals and the proportion of the expense needed to fund Expansion, Administrative, and other CHASE non-supplemental payment expenditures attributable to these hospitals. Current projections of IGT need total $170 million from Denver Health and $109 million from the University of Colorado Hospital.

- **Provider Classes—**Three provider classes are proposed, each of which will have their own Average Commercial Rate (ACR):
  - Hospital Inpatient—urban and rural subgroups
  - Hospital Outpatient—urban and rural subgroups
  - Behavioral Health (IMDs)—both inpatient and outpatient
- **SDP Payment Methodology and Amount**
  - Total ACR = ACR% *multiplied by* estimated Medicaid MCO costs
  - Directed Payment = Total ACR *less* MCO base payments
- Estimated maximum ACR Percentages[5] are shown in the table below (note: actual SDP will be calculated from a percentage below maximum ACRs shown here):

Inpatient ACR		Outpatient ACR	
Rural Hospitals	Urban Hospitals	Rural Hospitals	Urban Hospitals
153%	253%	255%	373%

- Quality: CMS requires that each preprint contains at least two quality measures. The workgroup was oriented on HCPF's draft 2024 managed care quality strategy and evaluated several potential measures against

[5] Currently, Behavioral Health (IMD) ACR and State Directed Payment estimates are not shown in this table because they are calculated from proxy data based on Medicare to Medicaid payment rate and cost estimates

10 quality principles. From these, the group selected four proposed measures:

- 30-day all-cause Readmissions (HEDIS)
- Follow-Up After Emergency Department Visit for Mental Illness (FUM)
- Follow-Up After Emergency Department Visit for Substance Use (FUA)
- Follow-Up After Hospitalization for Mental Illness (FUH)

Data for each of these measures is available and currently calculated as part of existing HCPF reporting, meaning that there will be high alignment with low burden on hospitals.

V. Net Predicted Impact

Together, these proposals result in an SDP program design that could represent $378 million in additional reimbursements to Colorado hospitals, helping to further CHASE's statutory goals. These figures are estimates and will change based upon:

- Any adjustments based on discussions with CMS
- Data revisions and refinement (e.g., utilizing more recent data for calculating NPR, Upper Payment Limit (UPL), and Medicaid utilization; gathering updated MCO data from encounter data; and augmenting current proxy data with additional psychiatric hospital data)
- IGT finalization
- DSH-qualifying hospitals based on new rules effective July 1, 2025
- Potentially other factors

VI. Post-Submission Actions

July 1st represents an important milestone but is only the next step in what will be a months-long process to establish Colorado's SDP. Known workstreams to execute post-submission include:

- **Engage with CMS on SDP and fee waiver questions:** At a minimum, CMS will take months to review and respond to Colorado's application. Experts share that Colorado should expect a period of silence and then many questions that must be addressed quickly. The HCPF staff who administer the CHASE program will manage all responses through existing processes and Board governance.

- **Integrate more-recent data:** The current proposal has data from previous periods that will need to be adjusted (e.g. NPR, UPL, expansion/administration costs), and HCPF will also need to refine encounter data for MCO costs and obtain psych hospital data to enable accurate ACR calculation.
- **Gain actuarial certification:** The State's actuary must review the updated MCO rates and certify that they are adequate and appropriate in the presence of the proposed SDP, which must occur within 120 days of the start of the SDP.
- **Amend managed care contracts:** Payments to providers flow through Managed Care Organizations (MCOs) so current contracts will need to be adjusted, which must occur within 120 days of the start of the SDP.
- **Monitor federal action:** Federal reconciliation, adjustments to CMS regulations, and other policy drivers may affect SDPs across states. Colorado must be prepared to respond to these changes when they become fact.
- **Monitor Poudre Valley/Memorial lawsuit status:** Classifying these two hospitals for inpatient and outpatient upper payment limit purposes as private-owned and operated rather than their current classification as non-state government owned or operated, which would change how CHASE UPL supplemental payments are distributed amongst hospitals. As of this report's submission date, the court is considering HCPF's request for a stay of the judgement.
- **Develop 2025-26 CHASE model:** The CHASE program's rhythm requires annual calculation of fees and payments based on the most-recent available data. Actual fees will be calculated based on net patient revenue and payments will depend primarily upon utilization and cost.
- **Program amendment and curation:** States regularly adjust their SDP designs to achieve optimal results for their Medicaid program. The short timeframe has required Colorado to submit a package that has opportunities for refinement in the long-term. The preprint must be submitted annually and the process to review and revise as needed will be incorporated into the current CHASE process so that desired refinements are implemented.