

Department of Health Care Policy and Financing

Funding Request for the FY 2024-25 Budget Cycle

Request Title

R-15 Continuing Support for Denver Health and Hospital Authority

Dept. Approval By: Erin Dady Supplemental FY 2023-24

OSPB Approval By: Adrian Leiter Budget Amendment FY 2024-25

X Change Request FY 2024-25

| Summary Information | Fund | FY 2023-24 | | FY 2024-25 | | FY 2025-26 |
|---|--------------|-----------------------|----------------------|--------------|--------------------|--------------|
| | | Initial Appropriation | Supplemental Request | Base Request | Change Request | Continuation |
| | Total | \$1,000,000 | \$0 | \$0 | \$5,000,000 | \$0 |
| | FTE | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total of All Line Items Impacted by Change Request | GF | \$1,000,000 | \$0 | \$0 | \$5,000,000 | \$0 |
| | CF | \$0 | \$0 | \$0 | \$0 | \$0 |
| | RF | \$0 | \$0 | \$0 | \$0 | \$0 |
| | FF | \$0 | \$0 | \$0 | \$0 | \$0 |

| Line Item Information | Fund | FY 2023-24 | FY 2024-25 | | FY 2025-26 | |
|---|--------------|-----------------------|----------------------|--------------|--------------------|--------------|
| | | Initial Appropriation | Supplemental Request | Base Request | Change Request | Continuation |
| | Total | \$1,000,000 | \$0 | \$0 | \$5,000,000 | \$0 |
| 06. Other Medical Services, (A) Other Medical Services, (1) | FTE | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Medical Services - Payments to Denver Health and Hospital Authority | GF | \$1,000,000 | \$0 | \$0 | \$5,000,000 | \$0 |
| | CF | \$0 | \$0 | \$0 | \$0 | \$0 |
| | RF | \$0 | \$0 | \$0 | \$0 | \$0 |
| | FF | \$0 | \$0 | \$0 | \$0 | \$0 |

| Auxiliary Data | | | |
|------------------------------|--|--|------------------------|
| Requires Legislation? | YES | | |
| Type of Request? | Health Care Policy and Financing Prioritized Request | Interagency Approval or Related Schedule 13s: | No Other Agency Impact |



Department Priority: R-15
Continuing Support for Denver Health and Hospital Authority

| Summary of Funding Change for FY 2024-25 | | | |
|--|-----------------------------|-----------------------|-----------------------|
| | | Incremental Change | |
| | FY 2023-24 Appropriation | FY 2024-25 Request | FY 2025-26 Request |
| Total Funds | \$1,000,000 | \$5,000,000 | \$0 |
| FTE | 0.0 | 0.0 | 0.0 |
| General Fund | \$1,000,000 | \$5,000,000 | \$0 |
| Cash Funds | \$0 | \$0 | \$0 |
| Reappropriated Funds | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 |

Summary of Request

The Department request a one-time increase of \$5,000,000 total funding, including \$5,000,000 General Fund in FY 2024-25 for a payment to Denver Health and Hospital Authority to assist in covering the uncompensated care costs within the City and County of Denver, which total nearly \$30 million each year. This request is to help improve the financial stability of the state’s largest safety net provider that provides a disproportionate share of Medicaid and uncompensated care. This request represents less than a 0.5% increase over the Department’s FY 2023-24 appropriation.

| Requires Legislation | Equity Impacts | Impacts Another Department? | Statutory Authority |
|----------------------|----------------|-----------------------------|---------------------|
| Yes | Neutral | No | 25.5-4-427 |

Current Program

Denver Health is the state’s largest safety net hospital, providing a high proportion of care to Medicaid and uninsured clients. Denver Health is an independent provider and does not have the same resources of other major hospital systems to leverage for financial stability. In 2023, Denver Health anticipates spending \$136 million in uncompensated care to uninsured patients and expects to receive \$30 million in local support from the City and County of Denver to cover such care.¹

To support Denver Health, the City and County of Denver recently agreed to a new \$70 million operating agreement.² This is only one of the ways Denver Health has been financially supported through recent economic impacts including the COVID-19 pandemic, staffing shortages, and significant staffing pay increases. While Denver Health has recently received local financial support, they do not have significant cash reserves compared to other hospitals due to the large amount of uncompensated care and the recent economic challenges. Through SB 23-138, the Department was appropriated \$5,000,000 in FY 2022-23 to provide a state only supplemental payment to Denver Health and received statutory authority to make state-only payment through July 1, 2024 in 25.5-4-427, C.R.S. Additionally, the JBC initiated an action to provide an additional \$1,000,000 in FY 2023-24 to provide a state only payment to Denver Health.

Problem or Opportunity

Denver Health is the largest safety-net provider in the State and serves many Medicaid members each year through its hospital, clinic, and ambulance services. It is currently experiencing significant financial hardship. Some of the reasons for that hardship include lower-than-anticipated volume of commercial insurance, which pays higher on average than Medicaid, and an increase in costs for wages. Denver Health covers a significant amount of uncompensated care as Colorado’s largest safety net provider, which is anticipated to cost \$136 million in 2023. Denver

¹ 9news, Denver Health faces \$100 million funding gap, September 27, 2023, <https://www.9news.com/article/news/local/denver-health-funding-gap/73-89c096aa-328a-45f9-a1c6-ddd3a95f4ae8#:text=over%2029%2C000%20services.-,Dr.,would%20be%20around%20%2430%20million>.

² Denver Gazette, City, County of Denver and Denver Health announce \$70M proposed 2023 operating agreement November 30, 2022, https://denvergazette.com/news/government/city-county-of-denver-and-denver-health-announce-70m-proposed-2023-operating-agreement/article_68157fea-652d-11ed-8bb5-c72ed4dd0801.html

Health's financial situation is more severe than some of its peers. Although their services are essential, the financial structure of Denver Health's operations are unsustainable, demonstrated with negative operating profit margins in 2020, 2021, and 2022. Unlike other hospital systems in the state, Denver Health's early 2023 operating margins indicate continuous challenges. Of hospital systems in the state, Denver Health had the lowest total profit margins in the first quarter of 2023 (-4.2%). As of June 2023, Denver Health reports very low operating profit margins for 2023 (1.1%).

Hospitals that receive top bond agency ratings often have days cash on hand in the range of 210-240 days.³ From March of 2022 to June of 2023, Denver Health has seen a decline in the amount of cash on hand days from 97 to 81 days of cash on hand.⁴ As of June 2023, Denver Health reports cash on hand of 81 days compared to the Colorado median urban hospitals of 245 days.

The Department has the opportunity to improve Denver Health's financial stability by providing a one-time, state-only payment to fill the gap in uncompensated care and improve the amount of cash on hand Denver Health has.

Proposed Solution and Anticipated Outcomes

The Department request \$5,000,000 in total funds, including \$5,000,000 in General Fund, in FY 2024-25 to provide a state only payment to Denver Health to cover uncompensated care. The Department requests that the JBC run a bill to amend 25.5-4-427, C.R.S to allow the Department to make these state only payments past July 1, 2024. The Department would set up an agreement with Denver Health to make the payment contingent on the hospital agreeing to certain requirements. These could include (but are not limited to): improving and modernizing Denver Health's current information technology systems, including CORHIO/Contexture connectivity and developing and administering the eConsult platform; increasing funding for Denver Health's nurse advice line; and processing applications timely as the Department returns to normal eligibility operations after the conclusion of the public health emergency.

This request is related to the Wildly Important Goal (WIG) "Keep Coloradans Covered" as providing state only payments to Denver Health and Hospital Authority will provide funding for previously uncompensated care. The Department anticipated that by providing a one-time state only payment to Denver Health, Denver Health will be able to improve its long-term financial stability by increasing the cash on hand reserves.

³ <https://www.aha.org/system/files/media/file/2023/04/Essential-Role-of-Financial-Reserves-in-Not-for-Profit-Healthcare.pdf>; Page 12, Figure 5

⁴ Sourced from Denver Health's recent Quarterly Report. Available at <https://emma.msrb.org/MarketActivity/ContinuingDisclosureDetails/P11284153>

Supporting Evidence and Evidence Continuum

The Department believes that providing state only payments to Denver Health to cover uncompensated costs falls under Step 1 of the Evidence Continuum. Under the S.B. 21-284 definitions, this program would be characterized as “Gather Evidence”.

Promoting Equitable Outcomes

The Department’s request to provide additional payments to Denver Health and Hospital Authority provides a positive impact to historically underserved Coloradan’s by providing additional financial stability to the state’s largest safety net provider. This will assist Denver Health and Hospital Authority with being able to continue providing health care to under severed Coloradans.

Assumptions and Calculations

The Department assumes that it will make a one-time state only \$5,000,000 payment to Denver Health in FY 2024-25 to assist with covering uncompensated care.

R-15 Continuing Support for Denver Health and Hospital Authority
Appendix A: Assumptions and Calculations

| Table 1.1 Summary by Line Item FY 2024-25 | | | | | | | | | |
|---|--|--------------------|------------|--------------------|------------|----------------------|---------------|--------------|--------------------|
| Row | Line Item | Total Funds | FTE | General Fund | HAS Fee CF | Reappropriated Funds | Federal Funds | FFP Rate | Notes/Calculations |
| A | (6) Other Medical Services, Payments to Denver Health and Hospital Authority | \$5,000,000 | \$0 | \$5,000,000 | \$0 | \$0 | \$0 | 50.00% | Table 2.1, Row B |
| B | Total Request | \$5,000,000 | \$0 | \$5,000,000 | \$0 | \$0 | \$0 | 0.00% | Row A |

| Table 1.2 Summary by Line Item FY 2025-26 and Ongoing | | | | | | | | | |
|---|--|-------------|------------|--------------|------------|----------------------|---------------|------------|--------------------|
| Row | Line Item | Total Funds | FTE | General Fund | HAS Fee CF | Reappropriated Funds | Federal Funds | FFP Rate | Notes/Calculations |
| A | (6) Other Medical Services, Payments to Denver Health and Hospital Authority | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | N/A | Table 2.2, Row B |
| B | Total Request | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | N/A | Row A |

R-15 Continuing Support for Denver Health and Hospital Authority
Appendix A: Assumptions and Calculations

| Table 2.1 Summary by Initiative FY 2024-25 | | | | | | | | | |
|--|--|--------------------|------------|--------------------|------------|----------------------|---------------|--------------|--------------------|
| Row | Item | Total Funds | FTE | General Fund | HAS Fee CF | Reappropriated Funds | Federal Funds | FFP Rate | Notes/Calculations |
| A | State Only Payments to Uncompensated Care in Denver Metro Area | \$5,000,000 | 0.0 | \$5,000,000 | \$0 | \$0 | \$0 | 0.00% | See Narrative |
| B | Total Request | \$5,000,000 | 0.0 | \$5,000,000 | \$0 | \$0 | \$0 | 0.00% | Row A |

| Table 2.2 Summary by Initiative FY 2025-26 | | | | | | | | | |
|--|--|-------------|------------|--------------|------------|----------------------|---------------|------------|--------------------|
| Row | Item | Total Funds | FTE | General Fund | HAS Fee CF | Reappropriated Funds | Federal Funds | FFP Rate | Notes/Calculations |
| A | State Only Payments to Uncompensated Care in Denver Metro Area | \$0 | 0.0 | \$0 | \$0 | \$0 | \$0 | N/A | See Narrative |
| B | Total Request | \$0 | 0.0 | \$0 | \$0 | \$0 | \$0 | N/A | Row A |