

House Bill 351 Hearing Notes

House Bill 351 addresses two challenges for the Department and the State of Idaho.

The first challenge is to manage Medicaid spending in the short term by reducing general fund needs for state fiscal year 2020 and 2021, as requested by Governor Little for most state agencies. The bill allows us to address that challenge by making reductions to hospital payments and by temporarily increasing assessments for nursing facilities.

The second challenge the bill addresses is the need for better budget management for Medicaid. Currently, both hospitals and nursing facilities are paid based on their costs, and Medicaid is legally obligated to pay those costs. Nursing facilities and hospitals together represent over one third of overall Medicaid spending – about \$850 million dollars in SFY 2019. Idaho is the last state Medicaid program in the nation to pay hospital providers under this cost-settlement methodology.

With Medicaid expansion now in place, that amount would increase to nearly a billion dollars in combined state and federal spending outside of the control of the Governor or the Legislature. This bill changes the basis for payment to allow the Department to effectively manage those costs and gives ultimate control of their growth to the Legislature. If Medicaid general fund needs outstrip state general fund revenue growth, the Legislature has a difficult choice to make – either raise taxes or pull funds from other state programs to fund Medicaid. This bill, along with other Department efforts, will make possible a third path of effective management within state budget constraints while preserving access to quality services for patients.

I will briefly walk through each section of the bill to explain how each of these objectives are accomplished.

Section 1 of the bill directs the Department to work with nursing facility providers to establish a new payment methodology for nursing facility providers, that takes patient needs, quality of care, provider costs, and the state budget into consideration.

That new payment methodology will set a budget for nursing facility payments prior to the start of each fiscal year. Medicaid will incorporate that budget as a line item within its request for

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funding to the legislature for consideration by next year's legislature. The new payment methodology would go into effect July of 2021.

We have met with the Idaho Health Care Association and discussed this provision at a series of weekly meetings we established when we first began working on this bill in November. We will continue to work closely with these providers to establish a new methodology that will allow fair reimbursement and to maintain access to services for Idahoans with Medicaid coverage. Our goal will be to manage our budget in a way that supports providers and preserves or improves the quality of care for Medicaid participants.

Section 2 of the bill addresses hospital reimbursement. It removes limitations for institutions for mental diseases (freestanding psychiatric hospitals with greater than 16 beds) to allow payment under Medicaid. That change is in keeping with the direction from 2019's Senate Bill 1204 for the Department to pursue federal approval for that coverage. It revises the definition for clarity and allows payment of a temporarily reduced rate for those hospitals.

Subsection 6 defines reimbursement for critical access, out of state, and state-owned hospitals. Medicaid reimbursement for rural critical access hospitals is codified but not impacted under this bill. Out of state hospital reimbursement remains at current levels. Reimbursement for out of state IMD's is established at 95% of cost. Reimbursement for state-owned hospitals is set at 100% of cost to make the most efficient use of state general funds.

Subsection 7 directs a reduction in hospital reimbursements by \$3.1M in general funds in SFY 2020 and by \$8.7 million in general funds in SFY 2021. In total funds that represents a \$13.6 M reduction in SFY 2020 and a \$38.2 M reduction in SFY 2021.

Subsection 8 directs the Department to work with hospitals to establish new value-based payment methods for hospitals. Like the approach for nursing facilities, the new payment methodology will set a hospital budget before the start of each fiscal year, and Medicaid will request funding from the legislature through the budget process. The new payment methodology would go into effect in July of 2021. As with nursing facilities, the goal is to create

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a payment methodology that supports providers and that improves the quality of care for Medicaid patients.

In keeping with that goal, *Subsection 9* directs the Department to establish a quality payment program to allow payments to hospitals to be contingent on the quality of care that they deliver.

Section 3 of the bill amends existing Idaho code to allow temporary increases to assessments for privately owned nursing facilities. The Department has worked extensively with the Idaho Health Care Association on this approach. Initially, we had proposed straight reductions to payments like those described for hospitals. That would have been extremely challenging for smaller facilities, and the IHCA asked that we revise our approach to decrease that impact.

This allows us to increase the assessment by about \$1.8M in SFY 2020 and \$5M in SFY 2021. It also allows additional increases to the assessment to temporarily increase rates for nursing facilities to draw down federal dollars to offset the assessment increase. Should the legislature pass this bill, we will be working closely with nursing facilities to change how we make assessments and payments to address cash flow needs.

While this remains a challenge for nursing facilities in the short term, we have done everything possible to mitigate the impact for residents and avoid negative outcomes resulting from the increased assessment.

Section 4 is an emergency clause to allow the bill to go into effect immediately. This is necessary to achieve general fund spending reductions for SFY 2020.

In summary, the bill before you gives the Department the ability to achieve the Governor's spending re-set. More importantly, it establishes a payment structure that gives the Department better management tools and the Legislature better visibility and control over these elements of Medicaid spending. Thank you for printing and hearing this bill, and I ask that you send it forward with a do pass recommendation.