SNHAF Opening Note:
This summary provides an overview and key excerpts from the Navigant Study of Hospital Funding and Payment Methodologies for Florida Medicaid. We are still plowing through the report and plan to drill down on a number of Navigant's findings using our own data sets. We will share further analyses as they are produced.

The Navigant study does not provide recommendations. It does however offer a clear description of inherent key factors in Florida Medicaid's current hospital funding and payment methodologies.

INITIAL REVIEW of NAVIGANT REPORT emailed on Thursday, January 15 …

Following a cursory review, the following seven findings were identified as notable. The Navigant report states that:

1. If IGTs are eliminated or reduced, a substitute funding source must be provided. To not do so, creates significant problems for safety net hospitals and the actuarial soundness of the Medicaid payment system.

2. Alternatives to IGT's are: general revenue; PMATF (hospital tax); and HMO tax.

3. Contrary to some complaints from stakeholders that the current system is not transparent, they found information readily available and accessible. This finding supports SNHAF past claims - there is a difference between complexity and transparency.

4. Hospitals with IGTs, especially public hospitals receive a higher payment to cost ratio than hospital without IGTs. They point out, however, that the hospitals with the higher payment ratios are the ones with the disproportionate share of Medicaid and charity. Over the next few days, SNHAF will also make it clear that five public hospitals provide $630 million to other communities from the IGT contribution. I talked to the Miami Herald tonight about this point.

5. Any major changes in the current LIP funding system, include a transition period to avoid major problems for certain safety net hospitals.

6. 5 hospitals may be over their LIP cost limit, (but they left a lot of room for interpretation)

7. Expansion of health coverage under the ACA would reduce the need for LIP and is treated as only a partial replacement funding source for IGTs.

FURTHER REVIEW of NAVIGANT REPORT…

Key Navigant Statements:

"If LIP is terminated in the future, other options will need to be developed to fund and distribute Medicaid reimbursement, otherwise Florida hospitals, particularly those treating a large percentage of Medicaid will risk financial hardship."

"Florida's Medicaid program is not funded to the level that programs of similar size across the nation are funded, resulting in below average payments to providers throughout the state."

"The Florida Agency for Health Care Administration (AHCA) estimates that by SFY 2015/16, 85 percent of all Florida Medicaid recipients will be enrolled in managed care plans and 65 percent of Medicaid payments."

Navigant Remarks on Current Hospital Funding and Payment Methods:

1. Adequacy.
   "Those who have access to IGT's are paid better in relationship to their costs then those who do not have access" … to IGTs

2. Sustainability.
   "IGTs are voluntary, yet comprise 44% of the hospital state share"
   "Top 3 IGT providers fund 66% … top 5 providers fund 75%"

3. Accountability.
   "During interviews with various stakeholders there was expressed a concern for transparency. Our conclusion, in contrast, is that documentation on the program is readily available and plentiful"

4. Equity.
   "In general hospitals that have access to IGTs are paid more"

   "When comparing public to private hospitals, public hospitals payments are noticeably higher"

   "However the hospitals that receive relatively higher payments are those that treat the majority of Medicaid patients. This … is consistent with the state's goal stated in the SFY 2005, 1115 demonstration waiver, 'The state will continue to foster and protect its safety net providers.'"

Delivery System Reform Incentive Payment Programs:

"DSRIP is a way for states to incentivize the transformation from volume to value in their health system. … DSRIP has proven to be an acceptable mechanism to provide incentive payments to hospitals even after a significant shift to managed care…"

Further the report indicates that if IGTs funded a DSRIP, payments would not be guaranteed as they are under LIP.

Other States Supplemental Payment Programs:

Navigant notes Florida could potentially follow Tennessee by combining LIP and DSH into a single uncompensated care pool.

Navigant also notes Florida could apply California and Texas models that have an uncompensated care pool along with a DSRIP program.

Funding Sources Options:

Navigant listed six funding sources available to Florida.

1. Hospital Assessment.
2. General Revenue.
3. Managed Care Assessment.
4. IGTs.
5. Medicaid Expansion.
6. Certified Public Expansion.

Alternative Model Options:

Navigant listed ten alternative LIP & supplemental payment methods:

"If a modified version of the LIP program would be acceptable to CMS than this would likely generate the least amount of changes to Florida's Medicaid program"

1. Continuation of LIP is a good option.
   "If current IGT funding is maintained, payment methods will need to be developed that meet CMS requirements while still allowing sufficient incentives for IGT contributors. CMS would likely prefer a shift to more broad-based funding, however, this may not be the preference of the State of Florida or the entities that contribute a portion of the State's share of funding. In addition, an option including IGT funding for a DSRIP program will need to balance meeting CMS's goals for health care delivery transformation with the need to provide return on investment to IGT contributors."

2. Increase fee-for-service rates and managed care capitation rates.

"Straight forward replacement method"

3. DSRIP.
   "If a DSRIP program is funded primarily from IGTs, one would expect the projects selected and the distribution of funds would be primarily to those who contributed the IGTs."

4. Medicaid Expansion.
   "We do not expect Medicaid expansion will do away with uncompensated care entirely."

5. UPL Payment Limit for Fee for Service.
   Florida's opportunity for UPL payments is growing smaller.

6. GME.
   Florida can and should carve GME out of supplemental payments. GME is a reimbursable service that is identified as a silo to expand.

7. DSH.
   Recognizes that Florida DSH payments are extremely low relative to other states

8. Uncompensated care pool.
   Florida could potentially follow Tennessee and combine LIP and DSH into a single uncompensated care pool. Or could follow California and Texas models and request an uncompensated care pool along with a DSRIP program.

9. Physician Supplemental Program.
   "Finding options to continue the $204 million program is essential to maintain current reimbursement levels to providers."

10. Transition Period.
    "We believe a replacement of the LIP program would also warrant a transition period if the replacement results in significant changes to Medicaid reimbursement to individual Hospitals.

ACA & Medicaid Expansion:

The report remarks that CMS might be flexible with optional Medicaid expansions plans.

It states that the implementation of Medicaid expansion would significantly reduce the amount of uncompensated care in the state. It further listed

benefits of ACA Medicaid expansion to hospitals, the uninsured, state revenues, health care cost reductions and private cost shift. However, supporting fiscal information was not included.

Important to note is reasoning presented by Navigant that Florida may not want to implement ACA Medicaid expansion because that the current federal 90% FMAP floor could be reduced in the future, thus increasing the state funding requirement.

Independent of the loss of LIP the ACA includes planned reductions in Medicaid and Medicare DSH funding, as well as a reduction on Medicare hospital FFS payments.

OTHER EXCERPTS FROM NAVIGANT REPORT …

Purpose of the Study:

"The intent of this study is to suggest sustainable, transparent, equitable, appropriate, accountable, and actuarially sound Medicaid payment systems and funding mechanisms that will ensure quality health care services to Florida's Medicaid beneficiaries throughout the state without the need for Low Income Pool (LIP) funding."

Low Income Pool Program Goals:

1. Provide government support for safety nets that provide health are to Medicaid, underinsured and uninsured.
2. Promote innovative programs that enhance the quality of care to low income population
3. Allowed for supplemental payments to hospitals during the transition to managed care.

Current Funding, Federal/State: Federal 60% & State 40%

The Florida percentage has been in the low forties or high thirties over the last few years. In state fiscal year 2014/15, the state share percentage is 40.44 percent and the federal share percentage is 59.56 percent.

Current Funding, State Share: GR 37% & Hospital and Local IGTs 63%

In SFY 2014/15 the state's 40.44 is funded from state GR 37%. 63% is funded from hospitals and local sources: IGTs 44%; PMAT 17%; and CPE 2%.

"Hospital reimbursement, funds from general revenue constitute 37 percent, a little more then 1/3, of the total state share."

The report validates that without the LIP and DSH payments the ratio of payments to costs is 49%. Without subtracting the IGT from the payments the statewide ratio of payments to cost is 66% however, the net value, as discussed in SNHAF meetings, is 49%.

Description of Current Funding Sources:

"Funding for payments of hospital services provided to Medicaid recipients, including those made through FFS and Medicaid managed care, the LIP program, and the DSH program generally come from five sources:

1. *General Revenue – relatively small;*
2. *IGTs – relatively large;*
3. *CPEs small;*
4. *Hospital provider assessment – large; and*
5. *Federal matching funds provided through CMS – large".*

Fiscal Summary of Florida's Current LIP & Self-Funded Supplemental Payment Program:

In the renewal year, SFY 2014/15, a total of nearly $2.2 billion ($1.3 federal) in supplemental payments through LIP will disappear if LIP is not replaced

1. $1 billion (for DY 1 - DY 8, LIP funding had a capped allotment of $1 billion disbursed in quarterly payments to providers.

2. In DY 9, the two following supplemental payments were authorized as part of LIP funds waiver):
    1. $963,184,508 (historical spending amount for self-funded hospital rate exemptions and buybacks, conditional on the state's assurance that no such rate exemptions or buybacks will be executed apart from LIP in DY 9); and

    2. $205,533,833 (historical supplemental payment amount for physician groups with medical school affiliation, conditional on the state's assurance that no such supplemental payments will be made apart from LIP in DY 9).

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