Health Care Authority: An Expanding Mission

AGENCY: Health Care Authority

DATE: September 19, 2024

PURPOSE OF HEARING: Budget Request

WITNESS: Kari Armijo, Secretary, Health Care Authority; Eric Chenier, Principal Analyst, LFC

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EXPECTED OUTCOME: Informational

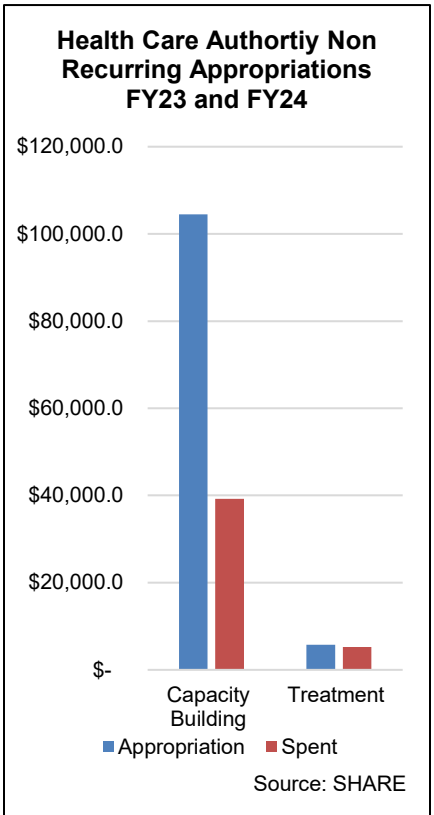
The Health Care Authority began its first fiscal year in July, combining the programs that used to comprise the Human Services Department with the Developmental Disabilities Support Program and the Division of Health Improvement from the Department of Health and the State Health Benefits Program from the General Services Department. Adding to this, enacted legislation moved the health care affordability fund from the Office of Superintendent of Insurance to the authority. The authority is requesting to make the fund its own program in FY26. With these and other changes, and the significant amount of funding the authority receives from the federal government, the authority is by far the largest agency in state government with a total budget of about $12.2 billion in FY25. Budget growth is expected in the next few years with projected medical inflation and the enactment of the Health Care Delivery and Access Act, projected to inject an additional $1.1 billion into the state's hospitals through Medicaid.

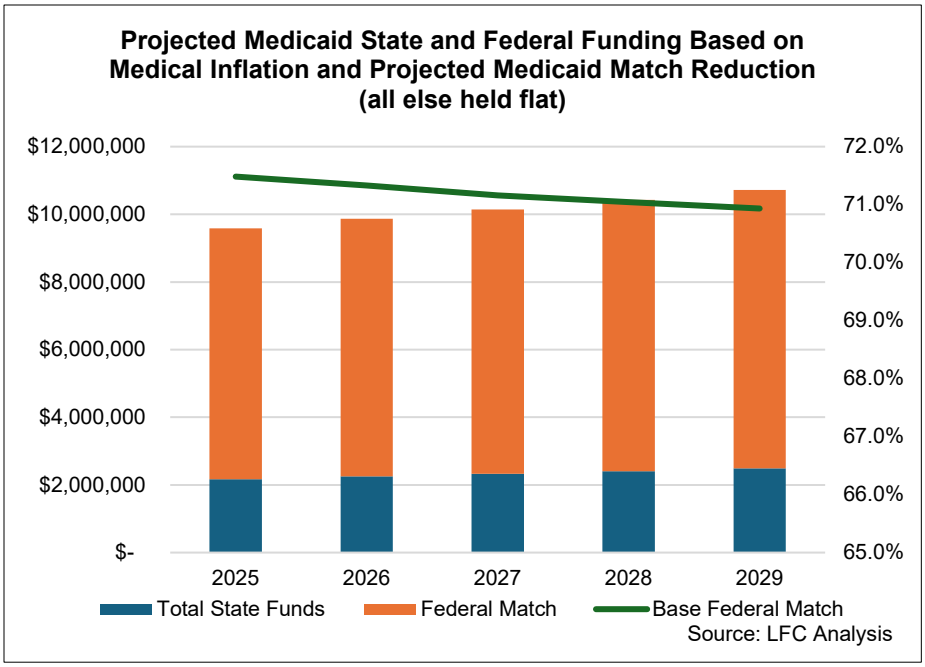
Health Care Authority Access, Coverage, and Oversight

Much of the reason for the creation of the authority was to improve the accessibility, coverage, and oversight of healthcare in the state. To improve access over the last several years, the Legislature prioritized physical and behavioral healthcare by creating the authority, injecting nonrecurring funding into capacity building efforts, and significantly increasing Medicaid rates paid to Medicaid providers for maternal and child health, physical health, behavioral health, developmental disability providers, and several other provider types to either create rate competitiveness or to ensure provider viability with the ultimate goal of increasing provider capacity through better recruitment and retention.

At this point, to improve coverage, the consolidation under the authority brings under one roof nearly half the state's population covered by Medicaid, nearly 60 thousand state employees and local government employees covered by state health benefits, and other low-income individuals with incomes too high to qualify for Medicaid but who are covered through the state's health insurance exchange with the help of healthcare affordability fund subsidies. The authority has signaled its intention to improve its market leverage, possibly by purchasing healthcare for some of these populations under a consolidated effort with the hope of driving down prices. The authority was also tasked by the Legislature with conducting a study to determine the feasibility of expanding Medicaid to cover these and possibly other populations.

Additionally, to improve healthcare oversight and regulation, the authority now oversees nearly all healthcare facilities—hospitals, long-term care facilities, behavioral health facilities, and community-based programs for people with developmental disabilities—through licensing and other oversight activities. Likewise, the authority is no longer just the payor for services for people with developmental disabilities; it now is also responsible for ensuring the smooth





operation of these services and making sure people with developmental disabilities live fulfilling lives and participate in their communities.

Federal Medicaid Spending and Budget Growth

With its over 3.5-to-1 matching rate, the federal government's Medicaid funds exert a significant amount of pressure on the state to grow its overall Medicaid budget, composed of the Developmental Disabilities Support, Medicaid Behavioral Health, and Medical Assistance Divisions. Between FY19, the year prior to the pandemic, and FY25, Medicaid's total budget nearly doubled from $5.6 billion to $10.3 billion, with future growth likely because of a decreasing federal matching rate, continued 3 percent medical cost inflation, and the state's enactment of the Health Care Delivery and Access Act.

Decreasing Federal Match Rates. The base federal medical assistance percentage (FMAP), or the rate at which the federal government matches state Medicaid funds, is expected to decrease over the next few years, which may require the state to make up for the difference to maintain spending at current levels. Each year each state's FMAP is set based on how well the state is performing economically compared to all the other states as measured by per capita income. Through at least 2029, the state's economy is projected to improve when compared to the rest of the nation. This means that over the next five years the state's FMAP is projected to decrease by an average of about 0.14 percent per year, resulting in a general fund cost of roughly $4 million to $5 million.

Recent and Upcoming Provider Rate Adjustments (in millions)*

Provider Type	FY24	FY25	FY26
**Maternal and Child Health and Primary Care	$222.5	$148.5	
***Hospital Rates	$105.9	$39.2	$1,361.4
Maternal Health Services	$29.6		
Phase III Providers		$42.6	
Prior Year Rate Maintenance		$116.6	
Rural Primary Care Clinics and FQHCs		$9.0	
Medicaid Home Visiting		$6.7	
Birthing Doulas and Lactation Counselors^		$26.0	
Total	$358.0	$388.6	$1,361.4

* Includes both state funds and federal match funds
** includes $5 million EC trust for maternal and child health
*** FY26 based on FIR for Health Care Delivery and Access Act
^$5.8 million from EC trust added this year

Medical Inflation. Projected at an average of about 2.8 percent per year, medical inflation is also expected to exert pressure on the state to spend more general fund revenue. Medical inflation is caused by advancements in expensive medical technologies, increases in aging populations, rising rates of chronic diseases, escalating pharmaceutical costs, growing administrative expenses, higher wages for healthcare workers, hospital consolidations reducing competition, doctors defensively ordering unnecessary tests to avoid lawsuits, and regulatory and insurance design changes. Medical inflation is projected to add from $73 million to $75 million to the cost of Medicaid each year.

Hospital Rates. Although not expected to drive general fund spending growth directly,

the state Health Care Delivery and Access Act is expected to drive up Medicaid spending in total. The act will inject an estimated $1.1 billion into the state's hospitals annually, likely starting in late FY25 or FY26. The act imposes an estimated $304 million in assessments on most hospitals, with the funds being used as the state match for federal Medicaid revenue and returned to the hospitals in the form of increased payments. The bill also devotes 40 percent of the funding generated by the assessment and matched Medicaid revenue for a newly established quality incentive program. Funding not used for quality incentives or administrative costs would be used for uniform payment rate increases. According to the hospital association, the first quarterly assessments are on track to be collected on March 10, 2025, and the first payments would be made on March 31, 2025. The directed payments will bring Medicaid reimbursement rates to hospitals up to the average commercial rate, the highest reimbursement allowed by Medicaid.

Services for People with Developmental Disabilities. Between FY22 and FY24, the state eliminated the waiting list for Medicaid waiver services for people with developmental disabilities and allocated about 2,500 people to the waiver program. When individuals are brought into the program, it typically takes a year or more for them to start spending the total amount available to them as they and their caregivers learn more about the services offered. Because of this, the authority is projecting there will be higher utilization among the population of 2,500 brought into the program in the last few years, causing higher costs. However, this may not be totally correct because the Legislature appropriated funding for the new enrollees at the average annual rate for all enrollees, knowing enrollees would need sustainable funding once budgets were fully utilized.

Prior Years' Budget

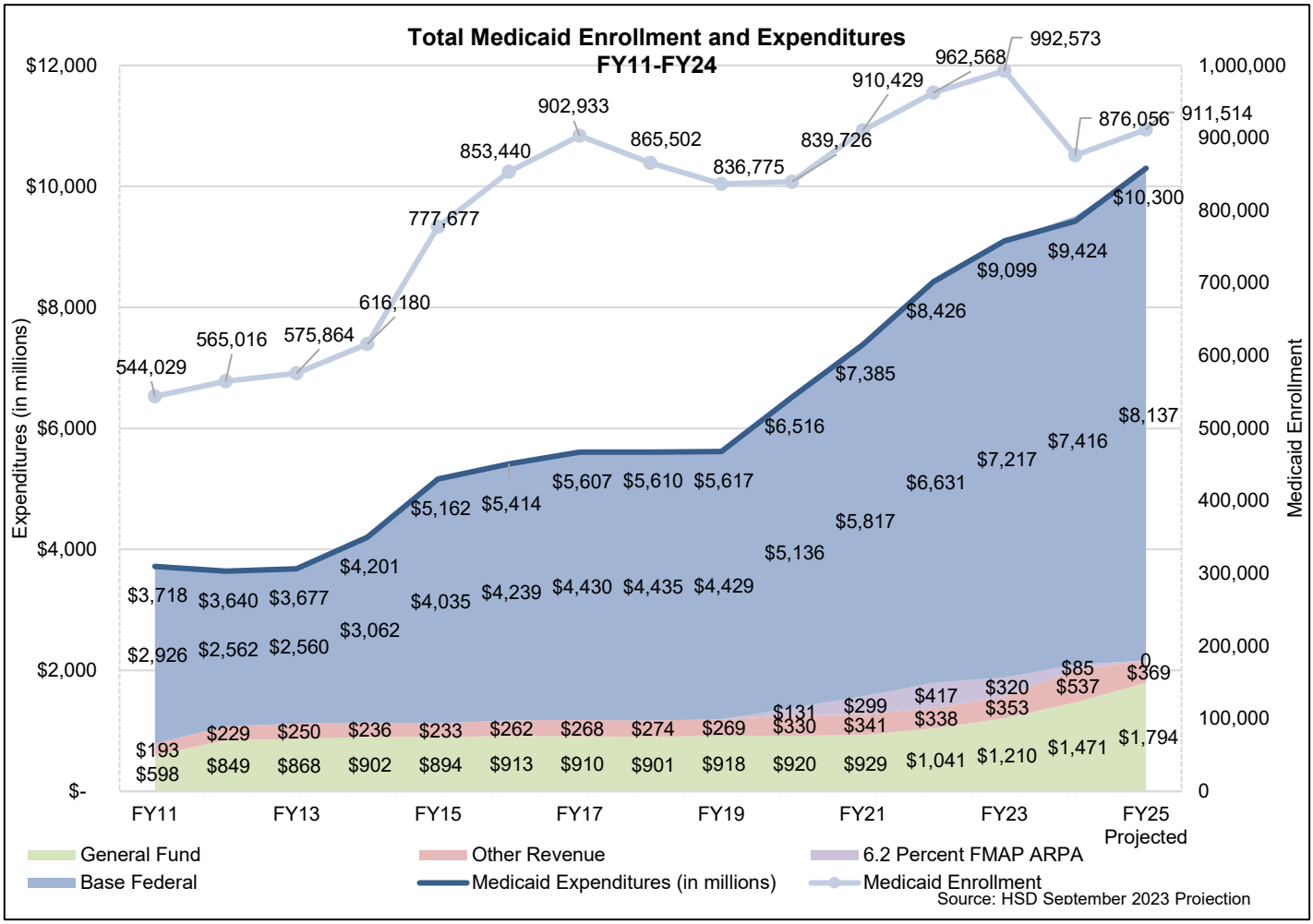
The $12.1 billion in total funds for the recurring budget includes $1.9 billion from the general fund and represents a 12.2 percent general fund increase, not accounting for increases from newly added programs. Aside from physical health, the authority's FY25 budget includes increases for behavioral health in both recurring and nonrecurring funding, increases in the social safety net, and expansions in the authority's administrative role.

Medicaid. In FY25, the three programs directly related to Medicaid received nearly $1.8 billion in recurring general fund revenue, an 11.6 percent increase. The need to sustain financial viability, improve access, and replace reductions in federal funds were the primary drivers of the FY25 Medicaid budget. Rate adjustments totaled $106.7 million in general fund revenue and, when matched with Medicaid, will total about $474.8 million. From general fund revenue, the largest rate adjustments included $28.1 million for maternal and child health and physical health, $26 million to maintain rate competitiveness for the rates adjusted in FY24, $20.4 million for developmental disability providers, $11.3 million for the state's 20 smallest hospitals, and $7.1 million for behavioral health providers.

The authority is planning to increase rates for FY25 to an amount greater than they will be able to sustain in FY26 absent a legislative appropriation. The 2024 General Appropriation Act language for rate increases for maternal and child health and physical health permitted the department to increase rates "up to" 150 percent of Medicare rates. The Legislature included the permissive "up to" language knowing the amount appropriated was likely insufficient to get from the 120 percent enacted for FY24 to the 150 percent requested for FY25. Knowing the appropriation is not

sufficient for a full year ,the department will increase rates to 150 percent starting on January 1, 2025, and will ask the Legislature for an additional appropriation to make the rate adjustment sustainable throughout FY26. If an additional appropriation is not forthcoming, the rates would have to be adjusted downward.

Nonrecurring Medicaid Funding. To improve financial viability and access, the Medicaid programs received $140 million in nonrecurring funding. These amounts included a total of $44 million for a nonfederal hospital in McKinley County, a primary care building in Taos County, the Epi Duran Regional Recovery Center in San Miguel County, and a hospital in Quay County. Another $50 million was set aside for subsidies to certain eligible healthcare facilities experiencing financial hardship, based on Chapter 44 (Senate Bill 161). An additional $46 million was included, adding to the $80 million appropriated in FY24, for grants to hospitals and other providers to defray the costs of starting up or expanding new primary care, maternal and child health, and behavioral health services.



Income Support. The Income Support Program received a 26.4 percent increase in general fund revenue in FY25. The increase included $14.1 million to increase the Supplemental Nutrition Assistance Program's (SNAP) income threshold to 200 percent of the federal poverty level ($62,400 a year for a family of four) and to increase benefits for clients with higher incomes than SNAP supports and who are elderly or disabled from $32 monthly to $150 monthly. However, recent performance reporting from the authority indicates the agency may be struggling to serve its existing SNAP clients. Since June 2022, SNAP has not met the federal target of 95 percent of its applications processed within 45 days, indicating the

program is having trouble serving all its existing clients in a timely manner. As of August 2023, only 39 percent of applications were processed within 30 days.

Health Care Authority FY26 Request

The Health Care Authority's FY26 request for $2.25 billion in general fund revenue is a 12.8 percent increase over the FY25 operating budget. Nearly all the increase is contained within the programs covering Medicaid, which includes continuing provider rate adjustments enacted in FY25 for the full fiscal year, healthcare inflation, enrollment growth, accommodation of federal Medicaid matching reductions, and new payment rate adjustments for the program for all inclusive care for the elderly and assisted living facilities. The authority also requested administrative funding for the ongoing costs of the Medicaid management information system replacement project, assuming it will go into operation in FY26, and additional amounts to reduce vacancies and implement appropriate placement salary adjustments authority wide.

Medicaid Request. The $1.9 billion general fund request for the Medical Assistance, Developmental Disabilities, and Medicaid Behavioral Health programs is a $139.9 million, or a 7.8 percent increase from the general fund. As stated previously, the authority is planning to increase rates to maternal and child health and physical health providers in January of FY25 to 150 percent of the Medicare benchmark for these rates. In FY25, the department only has sufficient funding for the increase for half the year, and to maintain the rates going forward for a full year, the department's request included an additional $49 million. If this amount is not funded, the department may not be able to sustain the rates for all FY26 and subsequent years.

The authority also requested $40 million for healthcare inflation and an additional $11 million because of the projected continued decrease in the federal Medicaid matching rate. The authority also assumed enrollment in Medicaid will continue to increase by about 2 percent on top of adding 20 thousand enrollees between birth and age 19, who were permitted to maintain Medicaid enrollment following the end of the public health emergency. The request assumes the increase in enrollment will cost about $20 million in general fund revenue. However, the most recent enrollment reports do not support the department's assumption of continued enrollment growth. Enrollment has been trending downward for the previous year and there is no indication enrollment will increase.

For Medicaid Behavioral Health, the authority requested $5.8 million in general fund revenue to continue a third year of rate adjustments following the two previous years of rate adjustments at a cost of about $7 million in general fund revenue each year.

Because of the elimination of the waiting list, and the enrollee delayed ramp up of service utilization, the authority requested $30 million in general fund revenue to fund an assumed increase in utilization within the Developmental Disabilities Support Division. Additionally, at an average enrollee cost of about 92 thousand, the request assumed nearly 200 would be enrolled into the Medicaid waiver programs for people with developmental disabilities, costing about $4 million in general fund revenue. The authority also requested $5.4 million to replace administrative funding it said it lost from the federal government and an additional $1.7 million to reduce vacancies.

Other Programs. The authority's request for general fund revenue for the other seven non-Medicaid programs totals about $26.3 million. The largest item, within the Income Support program, would increase salaries for income support workers by about $16.4 million, with an average salary adjustment for these workers of about 8 percent. The authority, in its budget request cover letter, stated 76 percent of its employees are below the mid-point in their salary bands and about 20 percent receive some sort of authority benefit, such as Supplemental Nutrition Assistance Program benefits. However, a recent salary study commissioned by LFC found, even though many of these positions are below their mid-point salary band, many of them are above or at the market rate. The authority would benefit from using this data to inform a more targeted adjustment of salaries.

The remainder of the request was to implement further salary adjustments authority-wide and to either upgrade existing IT systems within the department or to pay for the ongoing costs of operating new IT systems. Some of these costs are for support staff for these systems or for contractors to provide support. However, because the largest of the systems, the Medicaid Management Information System Replacement project, is several years behind schedule, the department may not need these staff by FY26.