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F I S C A L   I M P A C T   R E P O R T

SPONSOR Ortiz y Pino **ORIGINAL DATE** 1/29/2020 **LAST UPDATED** 2/19/2020 **HB**

SHORT TITLE All Payer Global Hospital Budget Task Force **SM** 9

ANALYST Chilton

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
HSD	$25.6	$25.6		$51.2	Nonrecurring	General Fund
HSD	$25.6	$25.6		$51.2	Nonrecurring	Federal Match
Total, all funds	$51.2	$51.2		$102.4	Nonrecurring	All Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Human Services Department (HSD)
Department of Health (DOH)

SUMMARY

Synopsis of Memorial:

Senate Memorial 9 asks DOH and HSD to convene a task force to study the possibility of instituting a global all-payer budget for hospitals in New Mexico, as has been the case in the state of Maryland since 2014 after a successful pilot program there that began in 2011. The memorial points out the encouragement given by the federal Center for Medicare and Medicaid Services (CMS) for states to develop alternatives to traditional fee-for-service financing for hospital funding with the "triple aim" of simultaneously pursuing the improvement of the patient experience of care, improving the health of populations, and reducing the per capita cost of health care.

Members of the task force would include representatives from

- DOH
- HSD
- The New Mexico Rural Hospital Network

- Advocacy groups from New Mexico rural health communities
- The New Mexico hospital association.

The task force would report its findings to the Legislative Health and Human Services Interim Committee on or before October 15, 2020.

FISCAL IMPLICATIONS

With regard to personnel requirements for convening and attending the task force, HSD estimates as follows:

> If SM9 is enacted, HSD would need to allocate resources or hire additional staff to fulfill the duties of the group in producing the All-Payer Global Hospital Budget Task Force. The diverse stakeholders convened by DOH would require frequent meetings and interagency consultation over the six months allotted to complete the study by October 15, 2020. This FTE would be needed for six months (three months in SFY 2020 and three months in SFY 2021) for a total cost of about $102,406, with a general fund impact of $51,203.
>
> There may be a need for additional FTE in areas that could potentially be involved in the group from HSD, such as the Behavioral Health Services Division (BHSD), and Office of General Council (OGC).

DOH indicates that it would see no fiscal impact to that agency.

SIGNIFICANT ISSUES

A hospital global all-payer budget provides each hospital with an annual budget determined through negotiation, taking into account the population served, both in terms of numbers and health experience. This replaces fee-for-service income that gives strong inducement to increase the number of procedures and hospital admissions with a system more likely to reward systems for keeping communities healthy and avoiding expensive services such as hospitalization.

DOH amplifies on these points:

> All-payer global budgeting offers providers a fixed reimbursement amount for a fixed period, usually a year, for a specific patient population. Providers receive the payment regardless of case volume or intensity of services delivered. This assurance creates an incentive to reorganize care delivery and invest in services to address preventable health conditions and treat patient populations in vulnerable communities. Vulnerable communities depend on local hospitals for care, but unfavorable economic conditions challenge hospitals as they try to stay solvent after the healthcare industry's shift to value-based care. Under a global budget, a rural hospital can plan for a set amount of revenue and invest in initiatives to reduce preventable hospital utilization.

As of now, Maryland is the only state that has instituted a hospital global all-payers budget for hospitals in that state. The experiment, approved by CMS, has been watched closely by other states; it is thought that Pennsylvania may follow suit in the near future.

Pennsylvania's department of health has marshaled evidence for moving toward a global all-

payers budget for hospitals, especially in rural parts of that state, with the following observations, among others:

1) There are 1,970 hospitals in the US in rural areas (35 percent of all hospitals)
2) Across the country, 68 rural hospitals have closed in past 5 years, reducing patient access and jobs in communities
3) Rural hospitals provide important care and deliver critical social programs (e.g., substance abuse treatment) in the community
4) A global all-payers budget would provide greater emphasis on outpatient services and fewer sub-scale inpatient services
5) It would provide direct incentives to improve quality
6) It would help to assure hospital sustainability through predictable revenue and opportunity to share in value creation

The two main benefits potentially available through a global all-payers budget in New Mexico would be

1) Stabilization of all and especially at-risk hospitals' budgets
2) A greater emphasis on prevention of community diseases and medical conditions.

There is some evidence from Maryland that these beneficial results have been realized. Studies, including those in the two articles referenced here indicate decreased hospitalizations, decreased cost to the state, and greater hospital investment in community health at the same time the hospitals have had an improved bottom line (Sharfstein, Gerovich et al., https://www.commonwealthfund.org/publications/fund-reports/2017/aug/emerging-approach-payment-reform-all-payer-global-budgets-large and Haber and Bell, www.healthaffairs.org › hblog20180508.819968 › full)

TECHNICAL ISSUES

Urban hospitals appear to be less well represented on the task force than rural hospitals.

LAC/sb/al