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

**SPONSOR** Ortiz y Pino **ORIGINAL DATE** 03/08/21 **LAST UPDATED** 03/14/21 **HB**

**SHORT TITLE** Global Hospital Budgets Task Force **SB** 351/aSHPAC

**ANALYST** Esquibel

## ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY21 | FY22 | FY23 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|---|---|---|
| **HSD FTE and Contracts** | $176.5 | $176.5 | $189.3 | $542.3 | Recurring | HSD General Fund |
| **HSD FTE and Contracts** | $176.5 | $176.5 | $189.3 | $542.3 | Recurring | HSD Federal Funds |
| **Task Force Per Diem and Mileage** | $9.0 | $18.0 | | $27.0 | Nonrecurring | HSD General Fund |
| **DOH Staff Per Diem and Mileage** | | $1.0 | | $1.0 | Nonrecurring | DOH General Fund |
| **Total** | $362.0 | $372.0 | $378.6 | $1,112.6 | | HSD General Fund/Federal Funds |

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act of 2021

## SOURCES OF INFORMATION

LFC Files

Responses Received From
Department of Health (DOH)
Human Services Department (HSD)
UNM Health Sciences Center (UNM-HSC)

## SUMMARY

Synopsis of SHPAC Amendment

The Senate Health and Public Affairs Committee amendments to Senate Bill 351 add that a member of the Office of Superintendent of Insurance shall serve on the global hospital budgets

task force. The amendments also extend by an additional two years the date of the functioning of the global hospital budgets task force from an ending date of December 1, 2021, to December 1, 2023.

Synopsis of Bill

Senate Bill 351 (SB351) proposes establishing a task force to study global hospital budgets to determine prospective changes in healthcare quality outcomes and spending within rural hospitals.

The bill would:

- Create a demonstration project based on the findings of the task force that implements measures that increase the healthcare quality outcomes and reduce spending of participating hospitals;
- Determine if testing and implementation of the demonstration project would reduce federal funding to Medicaid in New Mexico;
- Provide recommendations to the secretaries of Health and Human Services supporting an application for funding from the federal Centers for Medicare and Medicaid Services to test the demonstration project if the task force determines the project would not reduce federal funding to Medicaid;
- Require the task force report its findings to the Legislative Health and Human Services committee by December 1, 2021; and
- Based on the task force's recommendation, the secretaries of Health and Human Services shall submit an application by December 1, 2021 to the federal Centers for Medicare and Medicaid Services for funding to test the demonstration project recommended by the task force.

The task force would include representation from University of New Mexico Health Sciences Center (UNMHSC); Human Services Department (HSD), including its Medical Assistance Division; Department of Health, including its Office of Primary Care and Rural Health within the Public Health Division; New Mexico Rural Hospital Network; New Mexico Hospital Association; and advocacy groups of rural health communities. Task force members would be appointed by the secretaries of Health and Human Services departments.

## FISCAL IMPLICATIONS

The bill does not include an appropriation. SB351 provides that HSD may accept gifts, grants, and donations to support the work of the task force and directs HSD to provide staff for the task force.

The bill proposes that members of the task force who are not state employees or otherwise reimbursed for per diem and mileage expenses are entitled to receive per diem and mileage as provided in the Per Diem and Mileage Act. If the task force includes 2 members from each group indicated in the bill, that would total 12 members gathering for 9 monthly meetings each receiving an average $250 mileage and per diem for a total of $27 thousand over FY21 and FY22.

The Human Services Department (HSD) indicates it would need to dedicate existing staff

resources and procure consultant expertise to participate in the task force, help design the hospital global budget demonstration program, and fulfill actuarial functions associated with the 1115 demonstration waiver. The diverse task force stakeholders that would need to be convened by HSD and DOH would require frequent meetings and interagency consultation over the six to nine months allotted to complete the work of the Global Hospital Budget Task Force by December 1, 2021. This would require at least three different types of HSD staff including a staff manager, a data analyst, and a policy analyst with their time dedicated to the Global Hospital Budget Task Force. These FTE would require a total salary cost of about $253 thousand, at a 50 percent federal match with a state general fund impact of $126.5 thousand total for FY21 and FY22.

In addition to staff costs, HSD and DOH would need to procure consulting and actuarial expertise to help design the program and meet the federally required budget neutrality components of an 1115 demonstration waiver. The addition of consulting and actuarial expertise would cost approximately $100 thousand, at a 50 percent federal match with a state general fund impact of $50 thousand total for FY21 and FY22.

Because the addition of a global hospital budget demonstration program would result in a new component of HSD's Medicaid program, additional program staff would be needed to implement and manage the program once it has been designed and implemented. HSD anticipates a staff need of at least three different types of HSD staff including a staff manager, a financial analyst, and a management analyst dedicated to the Global Hospital Budget program. These FTE would require a total salary cost of about $228.6 thousand, at a 50 percent federal match with a state general fund impact of $114.3 thousand in FY23. In addition to staff costs, HSD and DOH would need to procure consulting, an external audit agent, and actuarial expertise to help implement the program and meet federal requirements. The addition of consulting and actuarial expertise would cost approximately $150 thousand, at a 50 percent federal match with a state general fund impact of $75 thousand in FY23.

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 reports its staff participation in the task force would cost an estimated $1 thousand for per diem and mileage.

**SIGNIFICANT ISSUES**

HSD reports it does not currently have dedicated staff to design the global hospital budget program that would be required by SB351. Such a program design is complex and requires high level Medicaid subject matter expertise. It would be impossible for HSD to do this with existing staff; therefore, HSD would require additional staff and consulting expertise as set forth in Fiscal Implications above.

The timeframe allotted in the bill between submitting the recommendations to the task force by December 1, 2021, and submitting an 1115 waiver to CMS by December 1, 2021, would also be very challenging because it would not provide HSD sufficient time to both design the program and perform all of the stakeholder, public and tribal input required for an 1115 waiver in accordance with federal regulations at 42 CFR 431.408.

## PERFORMANCE IMPLICATIONS

HSD reports it is currently engaged in substantial hospital-based financing projects that are required under the existing 1115 waiver for Centennial Care. These initiatives include a federally-required transition of the Hospital Quality Improvement Incentive (HQII) to a new value-based program for hospitals. Redesigning and transitioning the HQII program requires the same resources and staff that would be needed to design a new global budget program; therefore, HSD has serious concerns that it would not be able to meet both the requirements of SB351 and the federal mandate to transition HQII.

## TECHNICAL ISSUES

The bill appears to have a timing issue on page 4, Sections H and I, which require the task force submit its recommendations by December 1, 2021; but concurrently, depending on the task force's recommendations, HSD is required to submit a an application to CMS for global hospital budgeting by the same date of December 1, 2021. HSD would need quite a bit of time to prepare the application for CMS, so would need to be working on the application prior to December 1, 2021 to have it submitted to CMS by this date. HSD would then have to work independent of receiving any recommendations from the task force due to the overlapping timing. [The SHPAC amendments to SB315 address this issue.]

## OTHER SUBSTANTIVE ISSUES

DOH reports the strengths of global hospital budgets include:

- Fundamental changes to the incentives hospitals face, including a direct incentive to improve operating efficiency and reduce volume of cases, outpatient encounters, and services per patient.
- Rigorous enforcement of limits on spending and provide predictability for payers and health care policy-makers.
- Provides hospital management with more autonomy and flexibility to improve efficient production of health services.
- Is relatively straightforward for the hospital to administer, and it is seemingly less susceptible to the fraud associated with false or inflated claims for services.

The weaknesses of global hospital budgets include:

- Does not apply readily outside of an all-payer or single-payer environment.
- May not promote competition among hospitals or reward hospitals for growth in market share.
- Without specific performance incentives and assessments, hospitals can operate within their budgets by limiting spending, even if the spending reduction approach might negatively affect access and quality.
- The common, historical-basis approach to budget setting reinforces existing resource flows, which may not accurately reflect need or market value.
- Payers may base allowances for annual budget increases on factors unrelated to health (e.g., growth in inflation) thereby eroding the global budget's purchasing power.
- Assumes highly granular and accurate data - too much divergence from historical spending may cause real financial hardship for affected hospitals, which can compromise quality and access to care.

## ALTERNATIVES

HSD is currently engaged in substantial hospital-based financing projects that are required under the existing 1115 waiver for Centennial Care. These initiatives include a federally-required transition of the Hospital Quality Improvement Incentive (HQII) to a new value-based program for hospitals.

RAE/al