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COMMITTEE

# Medicaid Funding for Rural Hospitals

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Legislative Finance Committee

Presentation to the  
Legislative Health and Human Services Committee  
August 2015

# Overview



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Two recent LFC Program Evaluations on local healthcare financing, including locally financed Medicaid payments for rural hospitals (Non-ABQ Metro Area)

2011 – The Impact of Financing Healthcare through Tax Code Policy and Local Counties

2014 – County-Financed Health Care and the Local DWI Grant Program

Reports covered pre-post decision to expand Medicaid and modify local indigent fund requirements.

# Key Issues – 2014



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- ▶ **New Mexico has a diminishing need for robust county operated indigent programs.**
- ▶ **HSD has made significant changes and improvements in Medicaid funding for rural hospitals, but program costs need monitoring.**

# Indigent Funds



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**With Medicaid expansion and new health insurance options for New Mexicans, the need for county indigent programs will diminish significantly.**

**Historically, county spending from local indigent funds far exceeded revenue from locally-imposed 2<sup>nd</sup> 1/8<sup>th</sup> gross receipts tax increments, indicating counties have used other revenue sources for indigent care.**

- Overall, county indigent fund revenues increased over 200 percent between FY03 and FY09, from almost \$33 million to over \$98 million, far outpacing revenue generated from the 2<sup>nd</sup> 1/8<sup>th</sup> GRT increment.
- County indigent fund expenditures during that same time period increased by 150 percent, from \$35 million to over \$87 million.

**Between FY09 and FY14, county indigent fund balances increased over 24 percent to over \$30 million.**

**Indigent funds are the historical source for supplemental rural hospital payments.**

# Indigent Funds



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- ▶ **Since 2011, the state has made a number of changes impacting county indigent funds, which in some cases have caused significant financial competition for funding for the first time.**
- ▶ **Three key policy changes that have a near-term financial impact:**
  - increased restrictions on source of county revenue that can be used for leveraging Medicaid funds for local hospitals,
  - enactment of statutory changes impacting county indigent funds and required Medicaid matching contributions for rural hospitals, and
  - enactment of a phase-out of medical GRT hold harmless payments along with additional county taxing authority.

# Rural Hospitals



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- ▶ **In 2011, a LFC program evaluation found problems with Medicaid administration and financing for rural sole community hospitals.**
  - Some hospitals appeared to be overcompensated, receiving payments that exceeded costs of Medicaid and uninsured uncompensated care.
  - The program faced an unclear future with expansion of health care and reduced numbers of New Mexicans without a payment source.
  - The new program is designed to prevent overcompensation, and adds much needed transparency and reporting, as previously recommended by LFC.

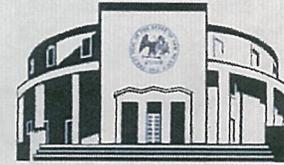
# Rural Hospitals



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- ▶ **HSD implemented a new program for supporting rural hospitals that would provide supplemental payments and rate increases, and prevents overcompensation.**
  - The new approach for supporting rural hospitals is divided into three key parts:
    - a supplemental payment pool of funds,
    - a rate increase, and
    - a quality improvement component.

# Rural Hospitals



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**For almost all hospitals in the Safety Net Care Pool, uncompensated Medicaid and uninsured care would be significantly reduced.**

- Based on full funding, the program would cover all Medicaid services at cost, and cover costs of uninsured care at all hospitals in the program except for three large hospitals.
- For hospitals under 200 beds, the program would eliminate over \$100 million in uncompensated care.
- The program is estimated to reduce Medicaid uncompensated care between 42 to 69 percent at large hospitals – reducing amounts down an estimated \$42 million at the three hospitals with 200 beds or more. Remaining gap would be about \$35 million.
- UNM hospital would have uncompensated care reduced by \$66 million leaving unreimbursed costs at over \$75 million.

# Rural Hospitals



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- ▶ **HSD has insufficient funding to fully implement the program, due in part to high cost and lack of revenue.**
  - **HSD's original proposal assumed insufficient county revenue, and required a state appropriation from the general fund to support this local program for the first time.**
  - **County contributions to rural hospitals will decline from previous levels with enactment of SB 268.**
  - **Update: HSD did not receive county payments for part of 2014, contributing to a GF deficiency, and the Legislature has chosen not to provide the additional \$9 million per year to cover previous county contributions.**

# Report Recs



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## Consider:

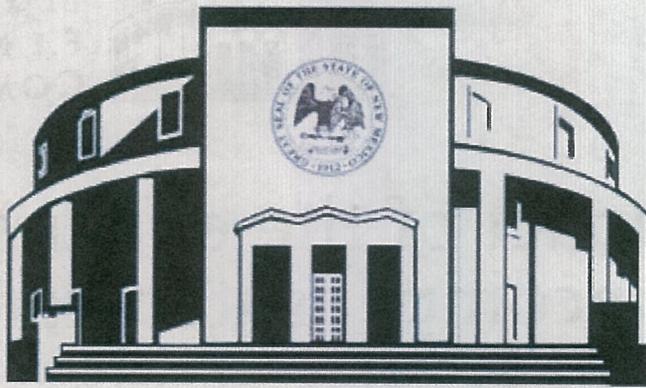
- ▶ Amending statute to sunset the Indigent Hospital and County Health Care Act including county indigent care obligations and the authority for imposing the 2<sup>nd</sup> 1/8<sup>th</sup> GRT increment in 2020. The legislature would need to review and take action on any changes during the 2019 legislative session. If discontinued, counties could continue to support indigent programs through general purpose tax revenues;
- ▶ Amending statute to sunset the Safety Net Care Pool and associated rate increases in 2020. The legislature would need to review and take action on any changes during the 2019 legislative session; and
- ▶ Not providing additional support from state funds for the Safety Net Care Pool program or rate increases.
- ▶ DFA – Require counties, as part of the budget review process, to include a schedule of detailed revenue and expenditures of the Health Care Assistance Fund and report annually to the Legislature in a similar format as the previous Health Policy Commission reports.

# Next Steps



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- ▶ LFC staff analysis on impact of the expansion of health coverage on uncompensated care at New Mexico hospitals and FQHCs.
  - Expected completion – September 2015.
- ▶ Continued monitoring of total Medicaid deficiency projections for FY16 and funding needs for FY17 and impact on supplemental funding for rural hospitals.
- ▶ LFC Evaluation of opportunities to leverage unmatched state/local funds for Medicaid – October 2015.



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Thank You

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