Addressing the Medicaid Funding Gap Through a Directed Payment Program

MAY 2021

Florida TaxWatch

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Dear Fellow Taxpayer

Entering the 2021 legislative session, Florida lawmakers faced the daunting challenge of crafting a balanced budget that met the state's critical needs while addressing a projected COVID-19-induced budget shortfall. Reduced revenues and increased expenditures for social programs such as Medicaid would force lawmakers to make cuts anywhere they could. Although the overall healthcare budget for fiscal year 2021 was likely to be greater than the budget for fiscal year 2020, stiff cuts were expected. Florida hospitals braced for significant reductions to Medicaid reimbursement rates, both inpatient and outpatient. These reductions would have affected all hospitals and negatively impacted access to quality healthcare services for the elderly, disabled, and most vulnerable Floridians.

As a matching program, when the Legislature reduces the General Revenue portion of the Medicaid budget, it also reduces the amount of matching federal Medicaid funding. Currently, Florida's hospitals receive about sixty-six cents on the dollar for the care they provide to Medicaid beneficiaries. Further budget reductions to an already underfunded system would likely adversely impact access to care and restrict services for our most vulnerable.

Higher than projected General Revenue collections, coupled with billions of dollars of federal stimulus funding, permitted the House and Senate to avoid cutting more than $300 million in hospital Medicaid funding for FY 2021-22. Revenue estimates and monthly collections continue to improve, and Florida's economic recovery has been strong, approaching pre-pandemic levels. Despite Florida's economic recovery, Florida's hospitals struggle to provide care for the more than four million Floridians who rely on Medicaid for their health care while mitigating the impacts of COVID-19. This has left Florida with limited options to offset the costs of caring for our most vulnerable residents.

One such option is the Medicaid Directed Payment Program (Medicaid DPP), a program that would help to address the gap between the cost of care and the payment received through Medicaid. The Medicaid DPP permits local governments to establish a special assessment that is charged solely to hospitals, and not to the taxpayers. Revenues generated through this assessment, if authorized by the Florida Legislature and the federal Centers for Medicaid and Medicare Services (CMS), may be used as part of the non-federal match to draw down additional federal Medicaid funding. This helps to ensure that the non-federal share is paid by the hospitals, rather than by individuals and businesses who have no connection to Medicaid.

Florida TaxWatch undertakes this independent research project to better understand how the Medicaid DPP can help Florida hospitals address the anticipated significant reductions to Medicaid reimbursement rates. Florida TaxWatch is pleased to present this report and its findings and looks forward to engaging policymakers in meaningful discussion.

Sincerely,

Dominic M. Calabro

Dominic M. Calabro
President & Chief Executive Officer

Executive Summary

Medicaid is a joint federal-state health insurance program that provides medical coverage to more than four million low-income Floridians. Administered by the state Agency for Health Care Administration, Medicaid is jointly funded through a federal cost-sharing agreement. During fiscal year 2020-21, Florida's appropriated budget for Medicaid is $29.7 billion.

Since the start of the COVID-19 pandemic in March 2020, Medicaid enrollment has increased from 3.8 million to 4.6 million, and there is every reason to believe that Medicaid enrollment will continue to increase throughout the remainder of the current fiscal year and throughout FY 2021-2022. The unexpected rise in Medicaid enrollment due to COVID-19 poses a risk to the state's Medicaid budget. As more enrollees seek additional care, the cost to administer and deliver medical services to Medicaid beneficiaries throughout the state will increase. By fiscal year 2021-22, Medicaid expenditures are expected to increase to $32.6 billion with the state's share of costs increasing by nearly $2.0 billion and the federal share of costs decreasing by around $1.0 billion.

Florida lawmakers faced a significant challenge as they attempted to address projected budget shortfalls stemming from the impact of COVID-19. Republican leaders in the House and Senate acknowledged that cuts to the health care budget, including reducing Medicaid payment rates to hospitals, may be necessary to develop a balanced budget for FY 2021-22. Additional reductions will compound the challenges health care providers already face trying to ensure adequate access and care to our most vulnerable. Especially hard hit during the pandemic, hospitals have contended with falling revenue and rising expenses as most urgent, non-COVID care came to a halt during the pandemic's earliest months.

It is important to note that Medicaid is a matching program where every $1 of GR generates about $1.82 in federal Medicaid funds. When the Legislature reduces GR, it also reduces the amount of matching federal Medicaid funding. Reducing the GR portion of the Medicaid budget will, in turn, reduce the federal match, making the impact more significant.

Even before COVID-19 struck, Florida hospitals faced a chronic problem in administering care to Medicaid enrollees as the cost of care for hospitals oftentimes exceeds the amount patients pay, or that Medicaid ultimately reimburses. On average, Medicaid reimbursement equates to about 66 percent of total costs, leaving hospitals with 34 percent of the unreimbursed costs. Going forward, shortfalls are likely to worsen in the coming months as hospitals in different regions grapple with rising Medicaid enrollment. Rising Medicaid enrollment has the two-fold effect of constraining the state's Medicaid budget and worsening hospital Medicaid shortfalls. Any potential solution, therefore, should remedy the two problems without jeopardizing quality access to health care for populations that depend on Medicaid.

One such solution is the Medicaid Directed Payment Program (DPP), which helps hospitals recoup unmet costs expended in the delivery of care by unlocking additional federal funds. The DPP is a local option that allows local governments to establish a non-ad valorem (non-property tax) special assessment that is charged solely to hospitals. Revenue generated through this special assessment is placed into a Local Provider Participation Fund (LPPF) and is matched with federal funds to provide Florida's hospitals with the supplemental Medicaid reimbursement. This helps to ensure that the non-federal share is paid by the hospitals, rather than by individuals or businesses with no ties to Medicaid. The Medicaid DPP must be approved by the CMS and must also be authorized by the Florida Legislature annually.

This permits the state to draw down additional or supplemental federal Medicaid dollars and include those funds in supplemental payments made to Managed Care Organizations. Implementation of the Medicaid DPP will generate additional Medicaid funding for some, but not all, hospitals, whereas reducing the Medicaid General Revenue budget will reduce Medicaid reimbursements to all hospitals. The Medicaid DPP avoids burdening anyone other than the hospitals to provide the non-federal share of additional or supplemental federal Medicaid dollars. Authorization of a Medicaid DPP will allow hospitals and their communities to develop a solution that fits the unique needs of that locality without placing additional pressure on state and local government budgets.

Higher than projected General Revenue collections, coupled with billions of dollars of federal stimulus funding, permitted the House and Senate to avoid cutting more than $300 million in hospital Medicaid funding for FY 2021-22. Revenue estimates and monthly collections continue to improve, and Florida's economic recovery has been strong, approaching pre-pandemic levels. There is reason to believe this trend will continue. The Revenue Estimating Conference anticipates full economic recovery in FY 2022-23, when all elements of the state's tourism sector are fully restored.

Florida TaxWatch recommends the Legislature adequately fund hospitals for the services provided to ensure access to care for Florida's Medicaid recipients. In addition, Florida TaxWatch supports authorizing a DPP to secure additional federal Medicaid matching funds and authorize all necessary spending and review by AHCA to implement this program efficiently and effectively.

Introduction

Medicaid is a joint federal-state health insurance program that provides medical coverage to a diverse low-income population consisting of children, pregnant women, people over 65, and individuals with disabilities. Even though the program is administered by the states, Medicaid is jointly funded with the federal government through a federal cost-sharing agreement. With the Medicaid program, Congress sought to create a partnership between the federal government and the states, including shared financing, "so as to make medical services for the needy more generally available." Since the inception of the Medicaid program in 1965, states have been able to draw down federal matching funds from the Centers for Medicare & Medicaid (CMS) for Medicaid services rendered to Medicaid beneficiaries.

In Florida, the state's Medicaid program served more than 3.81 million individuals during the fiscal year (FY) 2019-2020, equaling 18 percent of the state's total population. Florida's Medicaid roughly covers:

- 1 in 9 adults, ages 19-64;
- 3 in 7 children;
- 4 in 7 nursing home residents;
- 1 in 3 individuals with disabilities; and
- 1 in 5 Medicare beneficiaries.[1]

Since 2014, Florida has operated primarily under a statewide managed care delivery system, called the Statewide Medicaid Managed Care (SMMC) program, through which 78 percent of the state's Medicaid beneficiaries receive medical services.[2] The SMMC has three main parts, but the most widely used part is the state's Managed Medical Assistance (MMA) program,[3] which provides primary and acute services such as doctor visits, hospital care, prescribed drugs, mental health care, and transportation to enrollees.[4] Overseeing all these components, the Agency for Health Care Administration (AHCA) is responsible for administering the state's Medicaid system.

The COVID-19 pandemic has dramatically increased the number of Floridians who must rely on Medicaid to meet their health care needs. This has also dramatically increased the costs of the Medicaid program, and has threatened to increase the current gap between a hospital's cost of care for Medicaid patients and the payment or reimbursement the hospital actually receives. Florida TaxWatch undertakes this independent research to better understand the impacts of COVID-19 on Florida's Medicaid program and to explore the use of the Medicaid Directed Payment Program (DPP) as a way to minimize the gap between a hospital's cost of care for Medicaid patients and the payment or reimbursement the hospital actually receives.

1 Kaiser Family Foundation (KFF), "Medicaid in Florida," Published in Oct. 2019. http://files.kff.org/attachment/fact-sheet-medicaid-state-FL.

2 According to the Agency for Health Care Administration's (AHCA) Florida Statewide Medical Monthly Enrollment Report. The percentage reflects data from July 1, 2019 to June 30, 2020. https://ahca.myflorida.com/Medicaid/Finance/data_analytics/enrollment_report/index.shtml

3 In addition to the MMA, Florida's statewide managed care system has Long-Term Care (LTC) and Dental parts that Medicaid recipients can also utilize; however, the most widely used part is the MMA program.

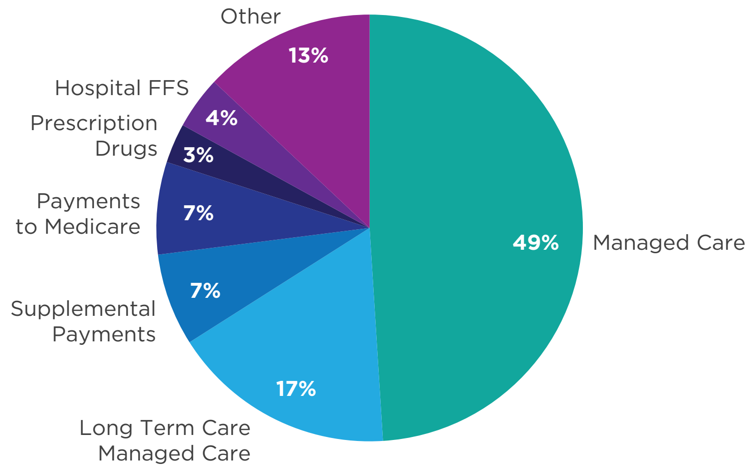
4 Agency for Health Care Administration (AHCA), Statewide Medicaid Managed Care: Health Plans and Program, Retrieved Mar. 2021. https://www.flmedicaidmanagedcare.com/health/comparehealthplans.

Medicaid Funding

During fiscal year (FY) 2020-2021, Florida's appropriated budget for Medicaid was $29.7 billion (See Figure 1), of which Managed Care for physician services and hospital care comprised the largest allocation at around $14.6 billion, or 49 percent of the appropriated budget. The next largest portion of the Medicaid budget was Long-Term Managed Care at $5.1 billion, equating to about 17 percent of the budget, which went to reimburse home and community-based services and nursing facilities.

Since Medicaid is jointly funded, the state of Florida and the federal government share the costs on an annual basis. The federal government's portion of Medicaid is determined by the Federal Medical Assistance Percentage (FMAP). The FMAP is calculated using a formula that takes into account the average per capita income for each state relative to the national average. The lower a state's per capita income, the higher the state's FMAP.

FIGURE 1. MEDICAID FY2020-21 BUDGET: $29.7 BILLION



Source: U.S. Census American Community Survey and U.S. Bureau of Labor Statistics

For FY 2020-2021, Florida's FMAP is 68.16 percent.[5] Based on the FMAP percentage, each state has a "multiplier" that is used to calculate how much the federal government will match for each state dollar expenditure. This amount fluctuates year to year, but for the FY 2020-2021, the multiplier was 2.05.[6]

Florida's state government appropriates General Revenue (GR) funds to finance the state share of Medicaid. Over the past few fiscal years, the amount of GR appropriated to the Medicaid budget has averaged around $6.2 billion.[7] In addition, the state levies a provider tax on hospitals that assesses a one percent tax on annual inpatient net revenues and a 1.5 percent tax on annual outpatient net revenues. The funds are deposited into the Public Medical Assistance Trust Fund (PMATF), and in past years, these funds have averaged around $748.3 million.[8]

Local governments also play a critical role in contributing to the state share of Medicaid funding, in order to draw down additional federal match dollars. Intergovernmental transfers (IGTs) are transfers from various counties, health care taxing districts, local schools, and hospital taxing authorities. So long as these IGTs comply with federal rules, they can be applied for federal match. In total, local government contributions in FY 2019-2020 were $771.3 million, leveraging a federal draw down of nearly $1.5 billion dollars to support

5 Due to the COVID-19 pandemic, the federal FMAP percentage increased following the federal Families First Coronavirus Response Act (FFCRA), which provided a 6.2 percentage point increase in the federal share of Medicaid spending for all states. The temporary increase is conditional on state's maintaining eligibility requirements and providing continuous coverage for Medicaid enrollees.

6 Kaiser Family Foundation (KFF), "Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier," https://www.kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D.

7 Social Services Estimating Conference, Medicaid Service Expenditures Report, Dec. 8, 2020. http://edr.state.fl.us/content/conferences/medicaid/medltexp.pdf.

8 Ibid.

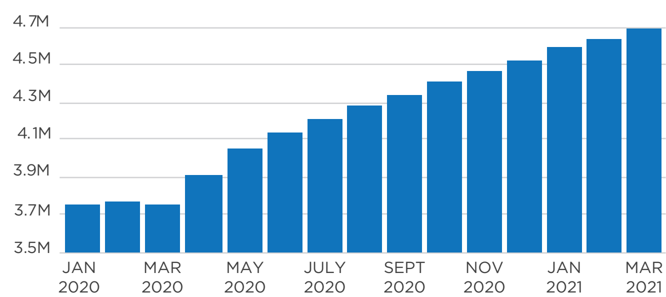
about $2.3 billion in Medicaid expenditures.[9] Local transfers are pivotal to enlarging the state share of Medicaid; however, according to federal regulation, the total funds derived from sources other than state GR funds—such as IGTs, provider taxes, and other assessments—cannot fund more than 60 percent of Florida's non-federal share of Medicaid expenditures.[10]

The Impact of COVID-19 on Medicaid

Medicaid operates as a countercyclical safety net program, meaning when there are periods of economic downturn, enrollment and expenditures tend to rise even as public revenues fall. The reason being that mass unemployment precedes a subsequent loss of income and in many cases health insurance, leading individuals to enroll in Medicaid. Throughout the past year, the COVID-19 pandemic has demonstrated the twin effects of the public health emergency and economic recession on Medicaid in Florida.

Since the start of the COVID-19 pandemic in March 2020, Medicaid enrollment has increased by more than 20 percent.[11] In March 2020, enrollment stood at about 3.8 million, but by the start of the March 2021 legislative session, enrollment had risen to more than 4.7 million with signs of continued increases as individuals seek medical coverage (see Figure 2.). According to the Florida Office of Economic & Demographic Research (EDR), Medicaid enrollment will continue to rise throughout the remainder of the current fiscal year and throughout FY 2021-2022. EDR forecasts have enrollment averaging 4.8 million throughout 2021 before eventually tapering off in late 2022 as the Florida economy gradually recovers.[12] For the time being, enrollment is expected to continue growing.

FIGURE 2. MEDICAID ENROLLMENT SKYROCKETED DURING THE COVID-19 PANDEMIC



Source: Agency for Healthcare Administration Medicaid Managed Care Enrollment Reports

The unexpected rise in Medicaid enrollment due to COVID-19 poses a risk to the state's Medicaid budget. As more enrollees seek additional care, the cost to administer and deliver medical services to Medicaid beneficiaries throughout the state will increase even as public revenues become more constrained. Based on the most recent projections for caseload growth, the Florida EDR forecasts Medicaid program expenditures to reach $31.6 billion in FY 2020-2021 (an 18.7 percent increase over the previous fiscal year), which is higher than the initial appropriated level.[13] By FY 2021-2022, program expenditures are expected to rise to $32.6 billion with the state's share of costs increasing by nearly $2.0 billion and the federal share of costs decreasing by around $1.0 billion (see Figure 3).[14]

9 Florida Agency for Health Care Administration (AHCA), "Local Funding Revenue Maximization and Funding for Special Medicaid Reimbursement Programs: A Report to the Florida Legislature for State Fiscal Year 2019-2020," https://ahca.myflorida.com/medicaid/recent_presentations/2020/IGT_Rev_Max_SFY19-20_FINAL_123020.pdf.

10 Medicaid and CHIP Payment and Access Commission (MACPAC), "Medicaid's Share of State Budgets," https://www.macpac.gov/subtopic/medicaids-share-of-state-budgets/

11 Florida Agency for Health Care Administration (AHCA), Florida Statewide Medicaid Monthly Enrollment Report, Updated Monthly. https://ahca.myflorida.com/medicaid/finance/data_analytics/enrollment_report/index.shtml.

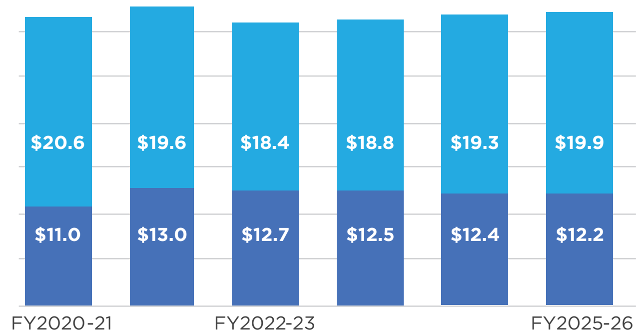
12 Social Services Estimating Conference, "Medicaid Caseloads and Expenditures," Dec. 2020.

13 Ibid.

14 Social Services Estimating Conference, "Long-Term Medicaid Services and Expenditures Forecast: FY 2020-2021 through FY 2025-2026," Dec. 2020.

Because the federal government increased its FMAP percentage 6.2 percent in 2020, in an effort to assist states with the new influx of Medicaid recipients, Florida's GR for Medicaid will result in a $342.8 million surplus for the current FY 2020-2021; however, as the infusion of supplementary federal funding ends (likely in 2022)[15], the state anticipated a $1.25 million shortfall in its GR fund for Medicaid during FY 2021-2022.[16] Unaddressed, this budget shortfall would force lawmakers to make important decisions regarding the state's share of Medicaid with consequences for federal matching funds and health care providers across Florida.

FIGURE 3. FLORIDA'S SHARE OF MEDICAID COSTS IS EXPECTED TO INCREASE THROUGH FY2025-26
(in $ billions)



Source: Social Services Estimating Conference, December 2020

It is important to note that Medicaid is a matching program where every $1 of GR generates about $1.82 in federal Medicaid funds. When the Legislature reduces GR, it also reduces the amount of matching federal Medicaid funding. Reducing the GR portion of the Medicaid budget will, in turn, reduce the federal match, making the impact more significant. To save $400 million in General Revenue, for example, the Legislature would have to reduce the Medicaid budget by $1.5 billion (because of the lost federal matching dollars).

15 The 6.2 percentage point increase in the federal FMAP will stay in place until the fiscal quarter after the end of the formal Public Health Emergency (PHE). The Secretary of Health and Human Services (HHS) will make this determination, but at the moment, the PHE has been extended until at least the end of 2021.

16 Social Services Estimating Conference, "Medicaid Caseloads and Expenditures," Dec. 2020.

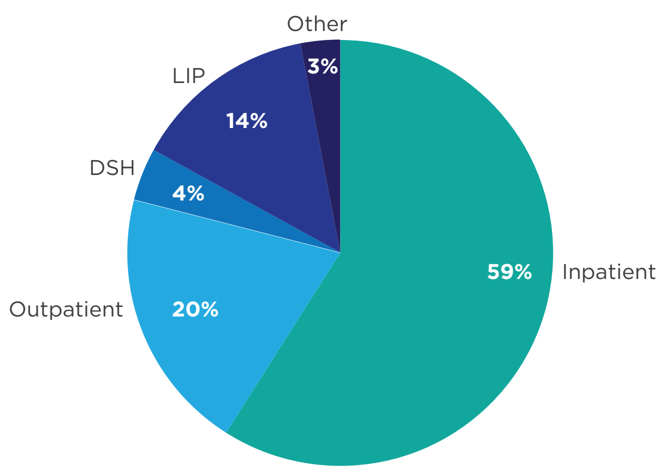
Hospital Financing and Resulting Payment Gaps

Especially hard hit during the pandemic, hospitals have contended with falling revenue and rising expenses as most urgent, non-COVID care came to a halt during the pandemic's earliest months. According to the Florida Hospital Association (FHA), as of December 2020, revenue losses were conservatively estimated at $3.0 billion due to delayed or canceled services. After factoring in additional expenses from equipment, supplies, staffing, vaccine administration, and other expenses, the total financial impact grows to $4.2 billion.[17] On top of all these expenses, a new financial challenge is emerging as Medicaid enrollment continues to soar, creating additional costs for furnishing medical services to a growing number of Medicaid recipients in hospitals.

Hospitals receive base payments (sometimes referred to as reimbursements) for rendering inpatient and outpatient services to Medicaid beneficiaries. In general, these base payments can come in two forms: (1) claim payments for health care services provided to fee-for-service (FFS) recipients and (2) capitation payments to managed care organizations, which then pay hospitals that provide services to Medicaid managed care recipients. These base payments are directly tied to the amount of Medicaid utilization. In Florida, most funding occurs under the state's managed care system, where hospitals receive reimbursements through capitation payments made to MCOs. Currently, Florida hospitals receive reimbursement for approximately 61 percent of their Medicaid costs, which leaves more than $2 billion in unfunded Medicaid costs each year.[18]

Hospitals also receive additional Medicaid payments through supplemental programs that are separate from, and in addition to, the base payments received for providing services to Medicaid recipients. Unlike base payments that are directly tied to the amount of services given, supplemental payments are often made in lump sum on a routine basis and are not directly tied the amount of services given. In Florida, the two main supplemental programs are the Disproportionate Share Hospital (DSH) program and the Low-Income Pool (LIP) program.

FIGURE 4. HOSPITAL MEDICAID PAYMENTS — $7.2 BILLION
(FY2019-20 from all funds)



Source: U.S. Census American Community Survey and U.S. Bureau of Labor Statistics

The DSH program compensates hospitals for costs associated with providing services to uninsured patients (known as "uncompensated care") and any Medicaid shortfall. Similarly, the LIP program, which is an uncompensated care pool, is intended to support safety net hospitals that provide care to uninsured populations that do not have the means to pay for their care. The LIP program reimburses hospitals solely for the cost of caring for the uninsured --- it does not offset any Medicaid shortfall.

17 Florida Hospital Association (FHA), "Impact of COVID-19 on Use of Medically Necessary Hospital Care," Retrieved March 2021.

18 Data provided by the Agency for Health Care Administration on Spring 2020. Medicaid shortfall data are based on utilization related to fiscal year 2017-18.

Based on data from FY 2019-2020, total hospital state payments for Medicaid amounted to $7.2 billion (See Figure 4). Payments for inpatient and outpatient services constituted nearly 80 percent of total hospital Medicaid payments. Supplemental payments from DSH and LIP were $1.3 billion, with a larger percentage coming from the DSH.

Financing these hospital Medicaid payments is an important part of the state's Medicaid system. For both base and supplemental payments in Florida, financing comes from a mix of: (1) state GR funds; (2) IGTs from local government agencies, such as counties and special hospital districts; (3) hospital provider taxes; (4) certified public expenditures (CPEs); and (5) federal matching funds.

Of particular importance, the primary way hospitals finance their Medicaid programs is through the use of IGTs. These local governmental transfers can come from a variety of sources, including local governments and special hospital districts. In Florida, there are 31 special hospital districts, of which 16 levy an ad valorem tax to fund IGT contributions. There are other special hospital districts with taxing authority that do not levy taxes at all, instead focusing on general funds, operating expenses, and other local sources to fund IGTs.[19]

For supplemental payments to hospitals, local governmental transfers contributed 25.6 percent of the total funds for Medicaid supplemental dollars in Florida during FY 2019-2020—more than any other state source, such as state GR funds and CPEs (2.0 and 6.4 percent, respectively). Federal matching dollars supplied the remaining 66.0 percent.[20] Approximately $580.7 million in IGTs was received by AHCA to fund the state share of Medicaid supplemental payments, financing Florida's LIP program (at $327.5 million in IGTs) and DSH program (at $64.7 million in IGTs). These local IGTs led to a federal draw down of more than $907 million.[21]

For base payments to hospitals, local governmental transfers also serve a crucial role for financing, but other state sources factor more into the total funding than they do for supplemental funding. Based on the General Appropriation Act for FY 2020-2021, the state of Florida allocated a combined $1.3 billion in GR funds for hospital inpatient and outpatient services under the FFS delivery system.[22] In comparison, IGTs amounted to $25.9 million and the state's provider tax, PMATF, contributed $255.1 million.[23] Since a majority of Medicaid payments occur under managed care, however, it is more telling to look at the state's managed care allocation for hospitals. Florida allocated approximately $4.2 billion for hospitals under managed care capitation payments, with local IGTs and federal matching funds financing the majority of this total amount.[24]

Despite these various financing arrangements, hospitals face a chronic problem in administering care to Medicaid enrollees: oftentimes, the cost of care for hospitals exceeds the amount patients pay, or that which Medicaid ultimately reimburses.[25] When hospitals cannot recover the full cost of the health care procedure, a

19 Florida TaxWatch, An Independent Analysis of The Medicaid Financial Accountability Regulation (MFAR) and its Impacts on Florida's Medicaid Program, Mar. 2020.

20 Ibid. Specifically, from Table 14.

21 Ibid.

22 General Appropriations Act (2020) for FY 2020-2021. https://www.flsenate.gov/Session/Bill/2020/5001/BillText/er/PDF.

23 Ibid.

24 Based on the available data, the exact breakdown of hospitals' managed care allocation, by revenue source, is unclear at the moment. In other words, the state of Florida allocated around $14.6 billion to the managed care system, with hospitals receiving roughly $4.2 billion (29%); however, it is unclear how much of this $4.2 billion comes from state GR, provider tax PMATF, or local IGTs. The statement "local IGTs and federal matching funds finance the majority of this total amount" comes from the fact that local IGTs and federal funds contributed $9.8 billion to the state's $14.6 billion allocation for the managed care system.

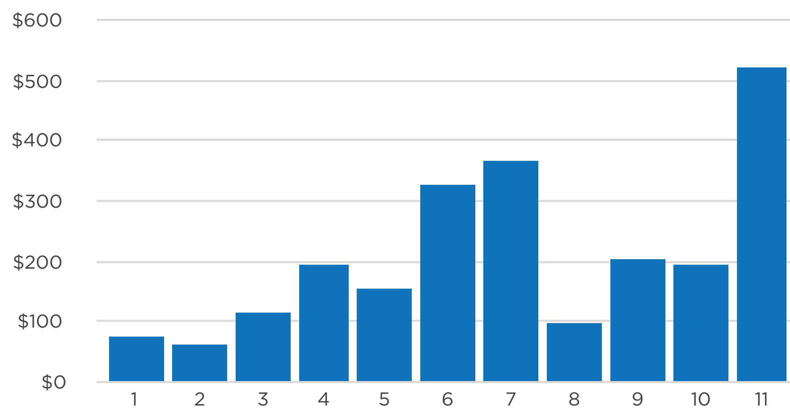
25 Florida Hospital Association (FHA), "Fast Facts: Hospital Financing in Florida," Retrieved Mar. 2021.

shortfall ensues. The shortfall is the difference between the hospital's cost of care for Medicaid patients and the payment the hospital actually receives. On average, Medicaid reimbursement equates to about 66 percent of total procedure costs, leaving hospitals with 34 percent of the unreimbursed costs.[26]

Even before COVID-19 struck, Florida hospitals struggled with annual Medicaid shortfalls (See Figure 5). Across Florida's 11 managed care regions, Medicaid shortfalls averaged $211.9 million. Shortfalls ranged from a low of $65 million in region 2 (which encompasses counties in Florida's Big Bend) to a high of $524 million in region 11 (which includes Miami-Dade and Monroe counties in south Florida). In total, across all 67 counties, the Medicaid shortfall totaled $2.3 billion. Going forward, shortfalls are likely to worsen in the coming months as hospitals in different regions grapple with rising Medicaid enrollment, requiring already limited resources.

FIGURE 5. FLORIDA'S ANNUAL HOSPITAL MEDICAID SHORTFALL BY REGION

(in $ millions — based on 2018 hospital utilization)



Source: Adelanto Healthcare Ventures, LLC

The proposed fiscal year 2021-22 legislative budget included cuts to hospital Medicaid funding. The budget passed by the Senate would have reduced inpatient and outpatient base Medicaid rates by $251.2 million. An additional $77.3 million directed to hospitals that treat large numbers of Medicaid patients would also be eliminated. The budget passed by the House would have reduced Medicaid payments for inpatient and outpatient hospital care by $288 million and eliminate $226 million used to offer enhanced Medicaid payments to 28 hospitals that provide the largest amounts of charity care in the state.[27]

In an April 2021 meeting of the General Revenue Estimating Conference, projections of available General Revenue (GR) funds were increased $1.476 billion for FY 2020-21 and $551 million for FY 2021-22.[28] After all current appropriations are paid, there would be $3,5 billion in unobligated GR left over at the end of FY 2020-21, which would then carry forward into the FY 2021-22 budget year. As a result, the House and Senate had $38.5 billion in GR for FY 2021-22, almost $1 billion more than was anticipated in March 2020 when the current budget was passed.[29]

The updated GR projections, developed after the House and Senate had passed their respective budgets, coupled with the $10 billion in federal stimulus funding Florida will receive through the American Rescue Plan, provided lawmakers a vastly improved budget outlook. Through the budget conference process, the cuts to hospital Medicaid funding were restored.

26 Ibid. Note: In the section describing public payer underpayment, the fact sheet states that Medicaid reimbursement usually covers $66 of the total cost of a $100 procedure, This leaves $34 in unreimbursed cost to the hospital.

27 Renzo Downey, "Florida Health Care Groups Rail Against Legislature's Proposed Budgets," Florida Politics, March 29, 2021, retrieved from https://floridapolitics.com/archives/415509-florida-health-care-groups-rail-against-legislatures-proposed-budgets, March 30, 2021.

28 Office of Economic and Demographic Research, results of the General Revenue Estimating Conference, April 6, 2021. http://www.edr.state.fl.us/Content/conferences/generalrevenue/index.cfm.

29 Florida TaxWatch, "New Estimates Add More Than $2 Billion to Available GR for the Budget Now Being Developed by the Legislature," Budget Watch, February 2021.

Rising Medicaid enrollment has the two-fold effect of constraining the state's Medicaid budget and worsening hospital Medicaid shortfalls. Any potential solution, therefore, should remedy the two problems without jeopardizing quality access to health care for populations that depend on Medicaid. One new hospital funding program, the Directed Payment Program (DPP), would do just this. The model will further assist the state government and hospitals as they traverse the pandemic economy.

The Directed Payment Program

In Florida's Medicaid managed care delivery system, the state contracts with managed care organizations (MCOs) for a comprehensive package of Medicaid services for enrolled beneficiaries. The MCOs are paid a fixed monthly payment for each Medicaid beneficiary, an approach referred to as "capitation." For many Florida hospitals, however, the cost of care often exceeds the ability of the patient to pay or the ability to be reimbursed through programs like Medicaid.

The Directed Payment Program (DPP) is one underutilized resource that can help hospitals recoup unmet costs expended in the delivery of care by unlocking additional federal funds to help make up the Medicaid shortfall --- the difference between a hospital's cost of care for Medicaid-eligible patients and the amount of Medicaid reimbursement funding the hospital receives for providing that care. The Medicaid DPP is a local option that allows local government entities to establish a non-ad valorem (non-property tax) special assessment that is charged only to hospitals. This helps to ensure that the non-federal share is paid by the hospitals, rather than by individuals or businesses with no ties to Medicaid. Revenue generated through this special assessment is placed into a Local Provider Participation Fund (LPPF) and is matched with federal funds to provide Florida's hospitals with the supplemental Medicaid reimbursement to offset the shortfall. Florida currently has received approval from CMS for Medicaid DPPs that benefit faculty physicians, cancer hospitals, and public ambulance providers. To date, at least 26 states have received CMS approval for a Medicaid DPP that benefits hospitals.[30]

Federal regulations require Medicaid DPPs to be approved by the CMS for a fixed period of time, usually for one year. Florida would be required to obtain written approval from CMS before approval of the managed care contracts. Florida would have to submit its request for approval to operate a Medicaid DPP during FY 2021-22 before approval of the corresponding Medicaid managed care contract(s) and rate certification(s).[31] AHCA submitted the proposed SMMC Hospital DPP Pre-Print to CMS in November 2020 and is currently working with Medicaid providers to calculate the available rate increases.

States must demonstrate in writing that the capitation rates included in a Medicaid DPP are actuarially sound. This means that the capitation rates address all reasonable, appropriate, and attainable costs expected to be incurred by the managed care plan. States must also demonstrate that the DPP is based upon the actual delivery and utilization of Medicaid services by Medicaid beneficiaries (as opposed to historical utilization).

The Medicaid DPP must also be authorized by the Legislature annually. This includes authorizing AHCA to collect the IGT funds from the local LPPFs, collect the federal matching funds, and provide a supplemental MCO rate using these two funds.

30 Adelanto HealthCare Ventures, "A Florida Medicaid Opportunity: Strategy and Mechanics."

31 42 C.F.R. § 438.6(c)(2).

Conclusions and Recommendations

The COVID-19 pandemic has caused seismic shifts in the use of healthcare services, creating financial uncertainty among state legislatures, healthcare providers, and managed care organizations. In Florida, Medicaid enrollment has increased by more than 20 percent and is expected to continue to rise throughout the remainder of the current fiscal year and throughout FY 2021-22. Medicaid expenditures are expected to continue to increase as well, with the state's share of costs increasing by nearly $2.0 billion and the federal share of costs decreasing by around $1.0 billion.

States rely on a combination of general revenue, state and local taxes, and other funding sources to provide the matching funds necessary to draw down federal Medicaid funds. Many states are now seeking ways to temporarily modify provider payment methodologies and capitation rates under their Medicaid managed care contracts to address the impacts of COVID-19 and to meet the demand for care and access to services for Medicaid beneficiaries.

Higher than projected General Revenue collections, coupled with billions of dollars of federal stimulus funding, permitted the House and Senate to avoid cutting more than $300 million in hospital Medicaid funding for FY 2021-22. Revenue estimates and monthly collections continue to improve, and Florida's economic recovery has been strong, approaching pre-pandemic levels. There is reason to believe this trend will continue. The Revenue Estimating Conference anticipates full economic recovery in FY 2022-23, when all elements of the state's tourism sector are fully restored.

The Medicaid DPP program is an innovative solution to a systemic challenge that Florida's hospitals have faced for years. Lawmakers have many tough decisions ahead. Authorization of a Medicaid DPP will allow hospitals and their communities to develop a solution that fits the unique needs of that locality without placing additional pressure on state and local government budgets.

Any additional reductions will compound the challenges health care providers already face trying to ensure adequate access and care to our most vulnerable. With or without additional reductions, the Medicaid DPP program is an innovative solution to a systemic challenge that Florida's hospitals have faced for years. The Medicaid DPP provides an opportunity for Florida to access existing federal health care funding arrangements to help hospitals unlock available federal funds and bring up the current reimbursement rates.

By establishing a non-ad valorem (non-property tax) special assessment that is charged only to hospitals, the Medicaid DPP helps to ensure that the non-federal share is paid by hospitals, rather than by individuals and businesses with no ties to Medicaid. This permits the state to draw down additional or supplemental federal Medicaid dollars and include those funds in supplemental payments made to MCOs. Implementation of the Medicaid DPP will generate additional Medicaid funding for some, but not all, hospitals, whereas reducing the Medicaid GR budget will reduce Medicaid reimbursements to all hospitals. The Medicaid DPP avoids burdening anyone other than the hospitals to provide the non-federal share. Authorization of a Medicaid DPP will allow hospitals and their communities to develop a solution that fits the unique needs of that locality without placing additional pressure on state and local government budgets.

Florida TaxWatch recommends the Legislature adequately fund hospitals for the services provided to ensure access to care for Florida's Medicaid recipients. In addition, Florida TaxWatch supports authorizing a Medicaid DPP to secure additional federal Medicaid matching funds and authorize necessary spending and review by AHCA to implement this program efficiently and effectively.

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ABOUT FLORIDA TAXWATCH

As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

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The findings in this Report are based on the data and sources referenced. Florida TaxWatch research is conducted with every reasonable attempt to verify the accuracy and reliability of the data, and the calculations and assumptions made herein. Please feel free to contact us if you feel that this paper is factually inaccurate.

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