



TEXAS HOSPITAL ASSOCIATION

**Testimony to the  
House County Affairs Committee**

regarding the

**Texas Healthcare Transformation and Quality Improvement Program  
Medicaid 1115 Waiver**

Presented by  
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Good morning Chairman Coleman, Vice Chair Marquez and members of the County Affairs Committee. My name is Dan Stultz, and I am the President and Chief Executive Officer of the Texas Hospital Association. I appreciate the opportunity to offer comments today on the proposed Medicaid 1115 waiver and to represent approximately 450 THA member hospitals.

### **Background to Reform**

Over the past few years, the number of clients enrolled in the state's Medicaid program has increased at a rate of about 10 percent per year. The increase in Medicaid caseload is the primary driver of cost in the Medicaid program, and this growth has placed a tremendous strain on the state's ability to finance the program. Medicaid needs reform.

In response to demographics, growth and lack of revenue, the Texas Legislature made dramatic cuts to Medicaid rates paid to Texas hospitals. In addition to applying an across-the-board 8 percent reduction in hospital rates, the Legislature opted to expand Medicaid managed care statewide and directed the Texas Health and Human Services Commission to implement a number of other cost savings initiatives.

As a result, in state fiscal year 2012, most Texas hospitals will be paid about 50 percent of their actual costs for the delivery of inpatient care and less than 70 percent of their costs for outpatient care.

Over the past decade, Texas hospitals have used the Medicaid supplemental Upper Payment Limit program to partially offset the shortfall in Medicaid payments to Texas hospitals. The UPL program has been a critical stop-gap financing mechanism for Texas hospitals. Increases in Medicaid caseloads, the freezing of inpatient hospital rates and other cost reductions implemented by THHSC have resulted in the amount of UPL payments increasing from less than \$1 billion in state fiscal year 2005 to nearly \$3 billion in fiscal year 2011.

### **Medicaid 1115 Reform Waiver**

Texas hospitals **support strongly the health care reform goals** laid out in the proposed Medicaid 1115 waiver. Texas hospitals appreciate the Texas Health and Human Services Commission's efforts to preserve critical Medicaid Upper Payment Limit funding.

In addition, our hospitals appreciate the efforts made by the Texas Health and Human Services Commission and by individual members of the Texas Legislature to successfully negotiate with the Centers for Medicare & Medicaid Services **a full one-year transition from the existing Medicaid UPL program to payments made under the Uncompensated Care and Delivery System Reform Incentive Payment pools.**

Hospitals appreciate THHSC's decision to form and use an **Executive Waiver Advisory Committee** to guide the implementation process. Comprised of agency personnel, hospital representatives, and state and county representatives, the committee is providing recommendations to the agency on the detailed provisions of the proposed waiver terms and related Medicaid program rules.

While the final waiver details and amounts are still under negotiation with CMS and the Office of Management and Budget, given the increasing number of Texans without health insurance, a key factor to successful implementation is the **amount negotiated in the waiver for uncompensated care and delivery system reform**. Thus far, it appears that THHSC has been able to negotiate an amount that will be sufficient to help mitigate uncompensated care costs over the term of the waiver.

Not included in the current waiver, but equally important will be THHSC's **negotiation for uncompensated care and delivery system payments for newly eligible** Medicaid populations in 2014 under federal health care reform.

Texas hospitals support the Regional Healthcare Partnership approach included in the proposed waiver, and Texas hospitals are working with THHSC to **increase flexibility of the program** to allow for the unique economic partnerships currently used by Texas hospitals.

Another important waiver goal is the development of transparent reporting mechanisms that measure the sources and uses of waiver funding pools. The reports can be used by THHSC to assist in policy decision goals in the later years of the waiver, and should include the amount of uncompensated care and Medicaid shortfall incurred by all hospitals.

We want this to work for all of our patients, hospitals and doctors.

I would be happy to answer any questions that you may have.