



TEXAS HOSPITAL ASSOCIATION

April 23, 2013

To House and Senate Budget Conferees:

The Texas Hospital Association respectfully requests that you appropriate state funds to ensure the federal Medicaid Disproportionate Share Hospital (DSH) program is fully funded for fiscal years 2013-2015.

For several decades, the urban public hospitals have shouldered the responsibility for funding Medicaid DSH payments while continuing to participate in the Medicaid program and provide high-quality care to Medicaid recipients. Hospitals continued this double-duty in spite of the fact that, session after session, the Legislature cut hospital reimbursement. The latest in the series of continuing state cuts came in 2011 when the Legislature adopted more than \$700 million per year in Medicaid cost containment payment reductions to hospitals. These reductions are on top of the billions of dollars in federal cuts that hospitals are experiencing and will continue to experience under ACA and sequestration – cuts that will be exacerbated if the state chooses not to expand coverage and claim the funds allocated for Medicaid expansion under ACA.

For years, the Legislature and State leadership have recognized that the current Medicaid DSH system is unsustainable but has not remedied the situation. The tipping point was reached when the Legislature expanded Medicaid managed care statewide, which led to the State obtaining the Medicaid 1115 Transformation Waiver. The Waiver created funding uncertainty among the hospital industry, which still continues well into the second year of the waiver, and placed additional demands on local tax dollars, resulting in a disincentive for the public hospitals that have traditionally funded the Medicaid DSH program to continue funding these vital supplemental payments. In fact, only seven of the original nine public hospitals remain willing to fund the Medicaid DSH program due to the financial incentives available to them under the waiver.

The hospital industry is now at a critical junction: it cannot continue to prop up the State's funding responsibility, endure further payment reductions outlined in Rider 51 to the State budget, and get paid less than 50% of costs for inpatient services and 75% of costs for outpatient services. The State has the opportunity to resolve this situation by funding the Medicaid DSH program. If the State fails to assume responsibility for funding at least part of the program, the tenuous balance that now exists between public and private hospitals in the delivery of care to Medicaid and low-income patients will be lost. The State's failure to take steps necessary to fully fund DSH will have long-lasting, negative impacts on the Medicaid program, including the Waiver, which is dependent on funding relationships that will no longer exist. This, in turn, will further limit access to care for the most vulnerable Texans.

The large urban public hospitals that have traditionally funded the Medicaid DSH program have indicated they are willing to continue to make intergovernmental transfers to partially fund the program in partnership with the State for fiscal years 2013-15. To fund the State's share of this partnership, THA requests that the State appropriate \$175 million in general revenue for this fiscal year (SFY 2013) and \$175 million in general revenue for each of the next two fiscal years for a total of \$350 for the next biennium to draw down federal funding for the hospitals whose Medicaid DSH payments will not be funded by the large urban public hospitals. Failure of the State to partially fund the program would mean that the large urban public hospitals would continue to be asked to shoulder the burden that they have borne for over 20 years.

Our goal is a fully funded Medicaid DSH program that would maximize the federal funds available under this crucial program to Texas hospitals.

Sincerely,

A handwritten signature in black ink that reads "Dan Stultz". The signature is fluid and cursive, with a small flourish at the end.

Dan Stultz, M.D., FACP, FACHE  
President/CEO

cc: The Honorable Rick Perry, Governor of Texas  
The Honorable David Dewhurst, Lt. Governor  
The Honorable Joe Straus, Speaker of Texas House of Representatives