Health Care Finance Update

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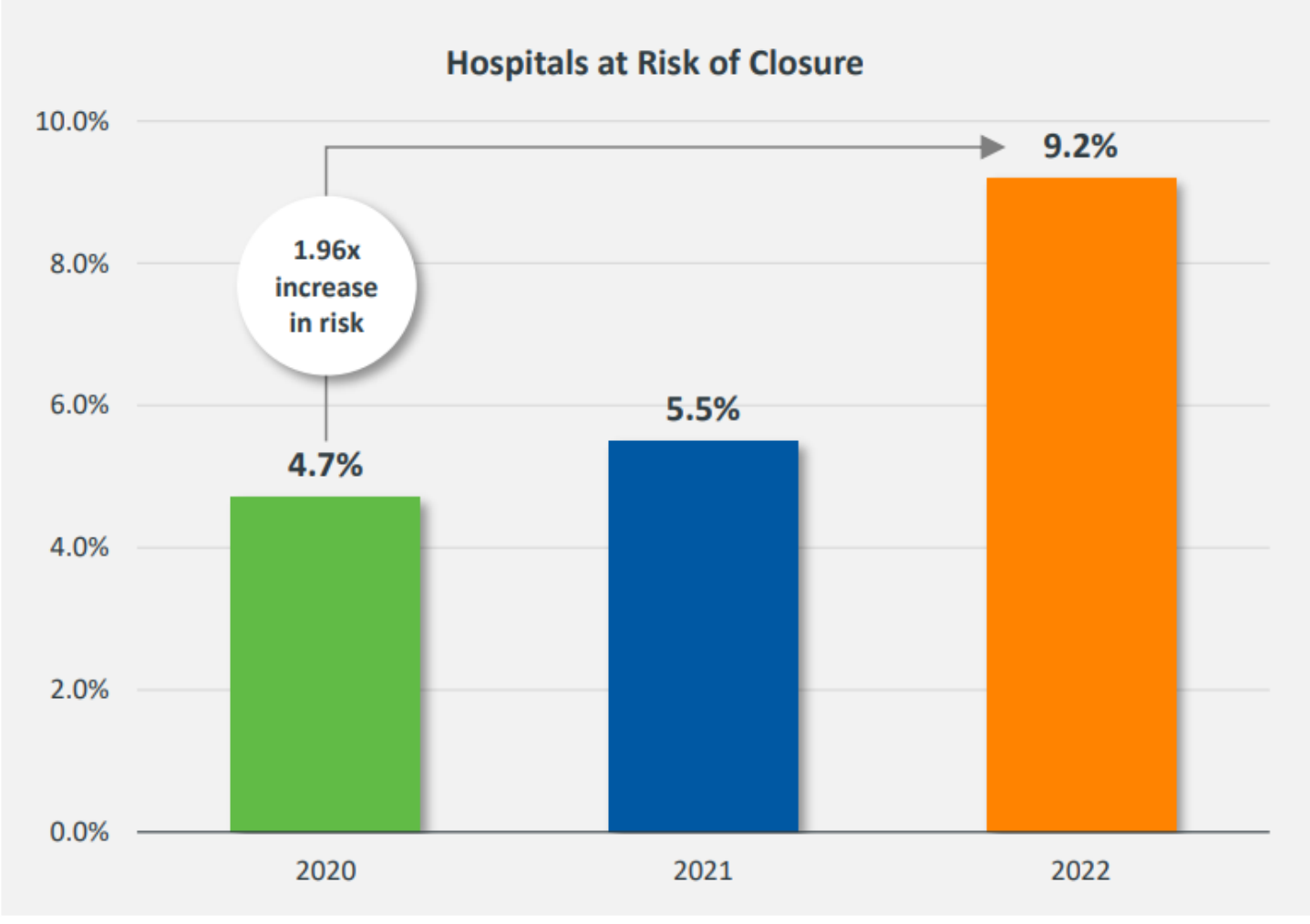
Learning Objectives

- Summarize current financial environment of hospitals in Texas.
- Describe the outlook for major government revenue streams, including Medicaid base rates & Medicaid supplemental payments
- Anticipate future funding challenges and advocacy opportunities to protect hospital funding in Texas

Current Financial Environment

More Texas Hospitals Are at Risk of Closure



KEY TAKEAWAYS

- The percent of Texas hospitals at serious risk of closure has nearly doubled since 2020.
- Risk is assessed by performance of operating margin, days cash on hand, and debt to capitalization ratios in unsustainable positions.
- While stimulus support helped lessen the risk of closure for Texas hospitals in 2020 and 2021, the risk has consistently grown across all time periods.

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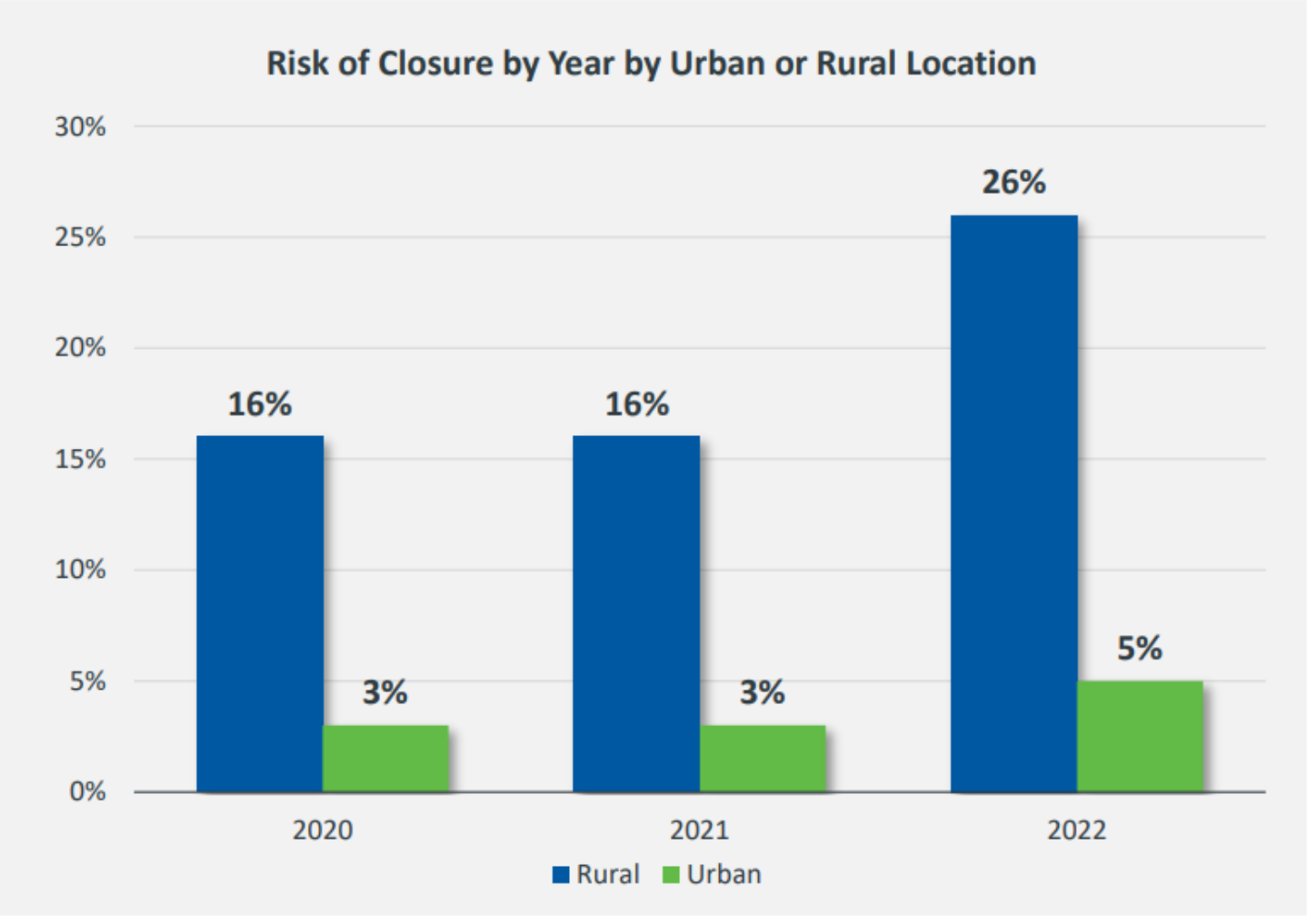
Rural Hospitals Remain at a Higher Risk of Closure than Urban Counterparts, but Risk Has Grown for All



KEY TAKEAWAYS

- The risk of closure for rural hospitals in Texas remains highly elevated over the risk of closure for urban hospitals.
- These challenges represent a clear problem for rural providers within Texas.
- Urban hospitals have also demonstrated an increase in risk over time.

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What is driving increased rural hospital closure risk?

- Elevated drug and supply costs
- Labor shortages and staffing expenses
- Lower patient volumes, higher patient acuity
- Expired pandemic relief
- Challenges negotiating with commercial payers & managed care organizations

PYA

Shoppable Service

195 - SIMPLE PNEUMONIA AND PLEURISY WITHOUT CC/MCC

Provider State: TX
Payer Name: All
Code Type: All
Service: SIMPLE PNEUMONIA AND PLEURISY WITHOUT CC/MCC
Confidence Interval: 0 – 85

Negotiated Rate:

Minimum	Maximum	Average
$3,534	$18,835	$8,401

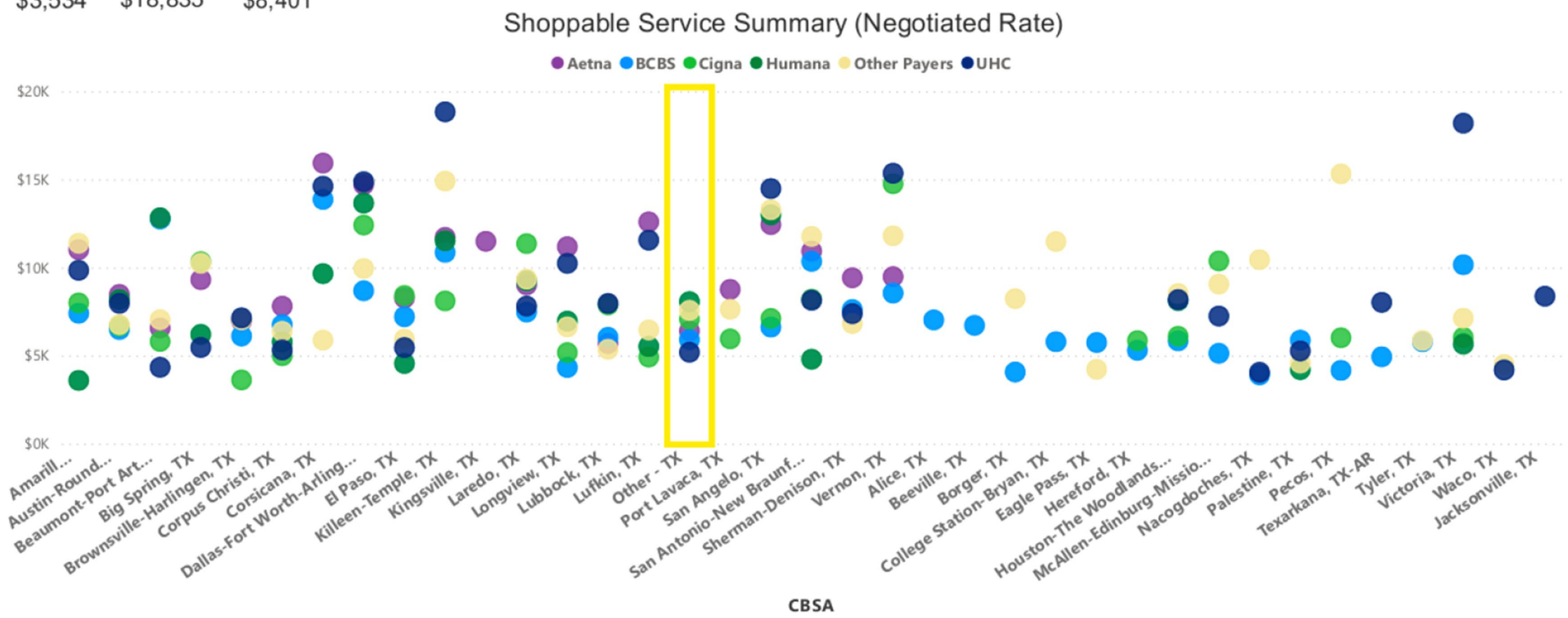
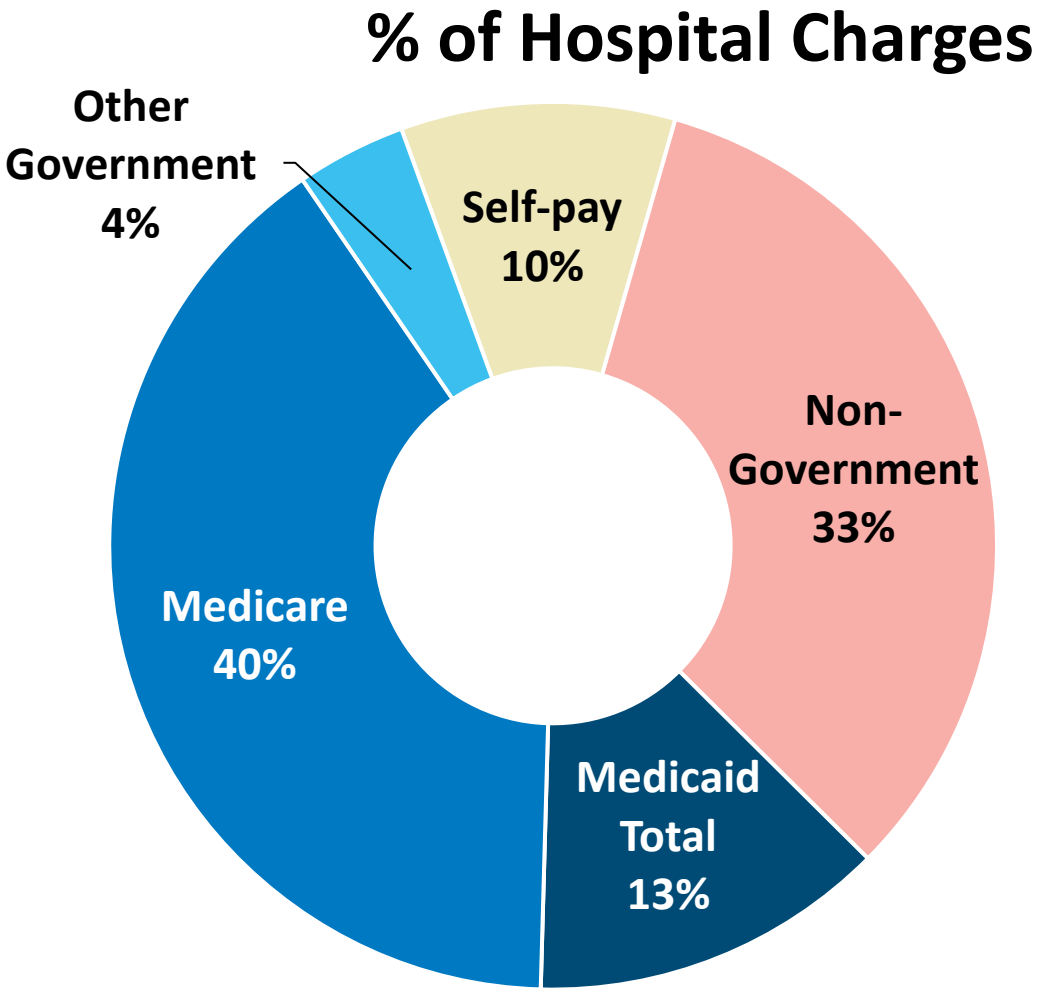
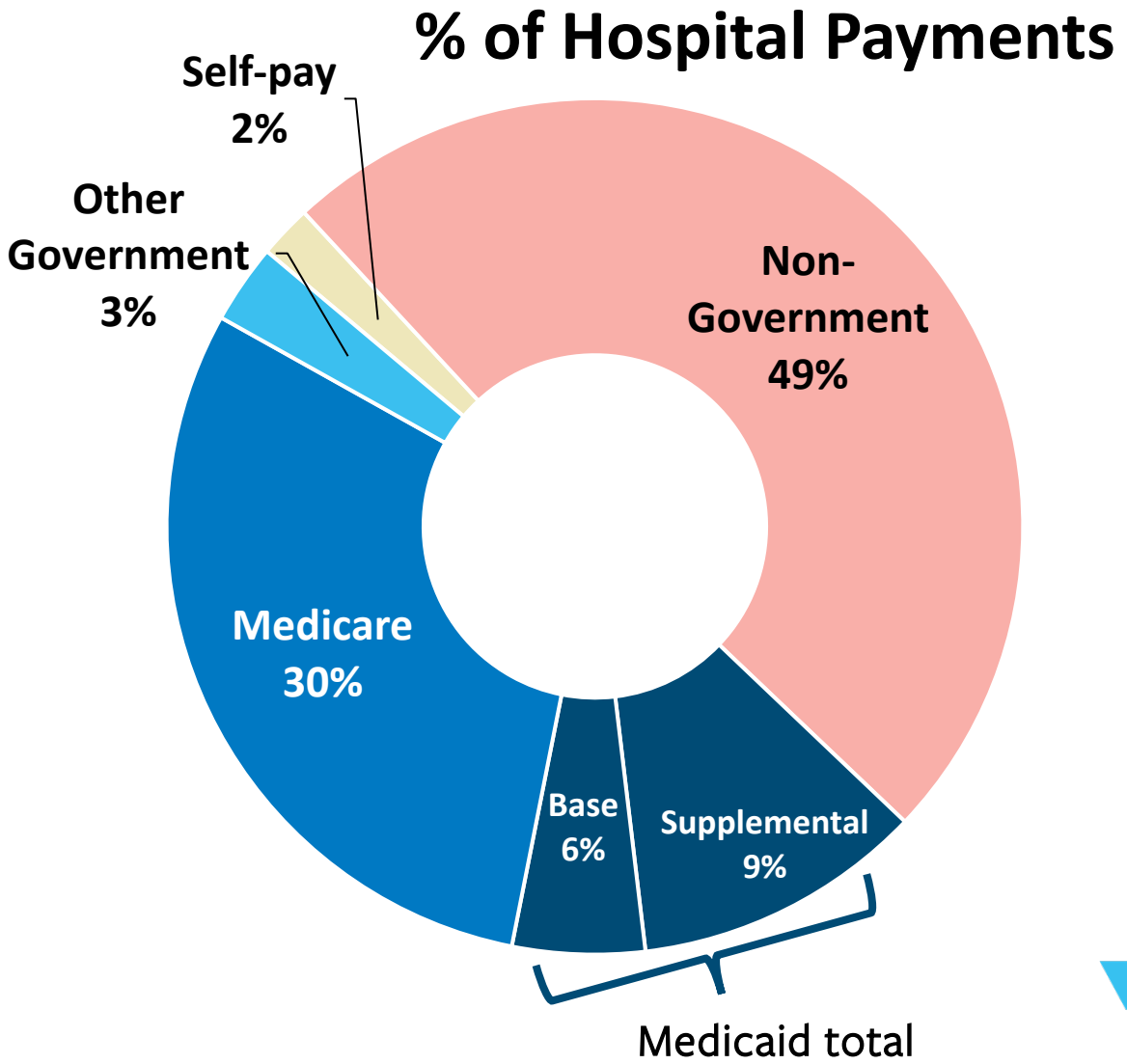


Chart source: PYA
Data source: Turquoise Health

Hospital Charges vs. Hospital Payments by payer, Texas (2021)

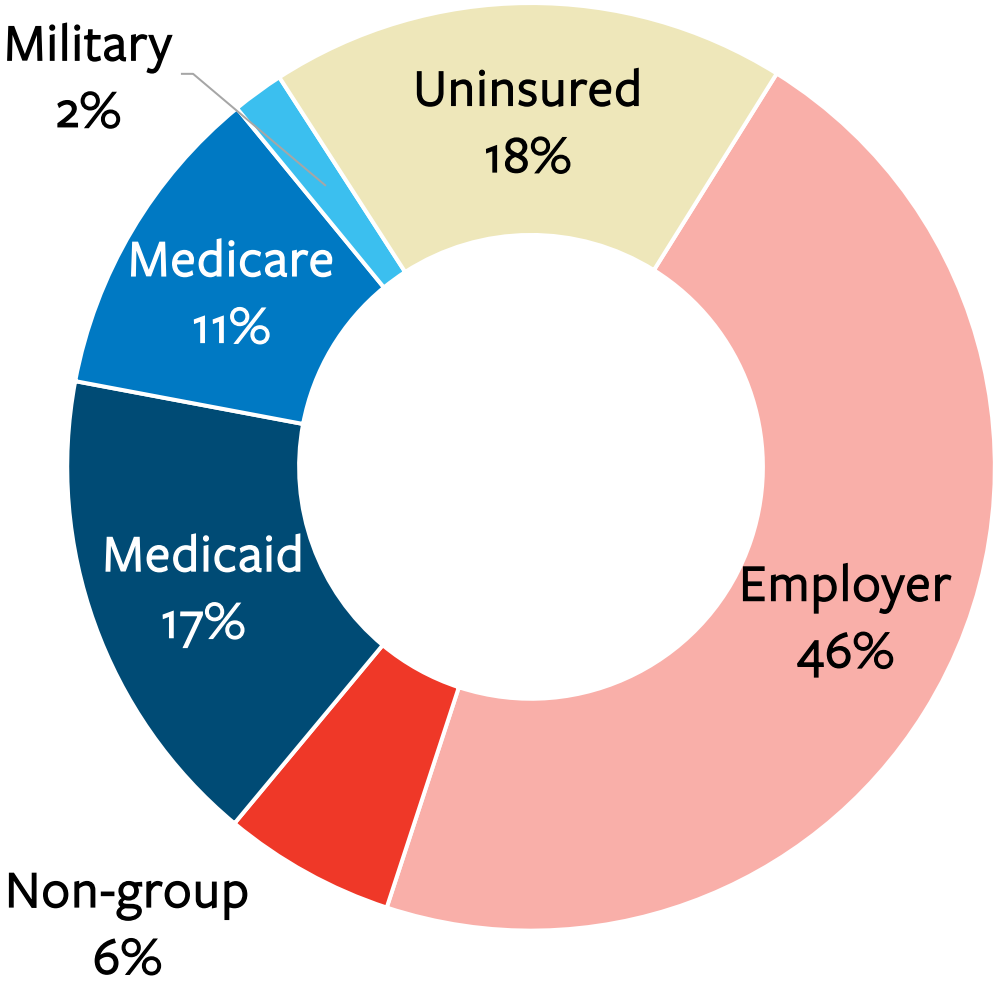




Source: American Hospital Association (2016).

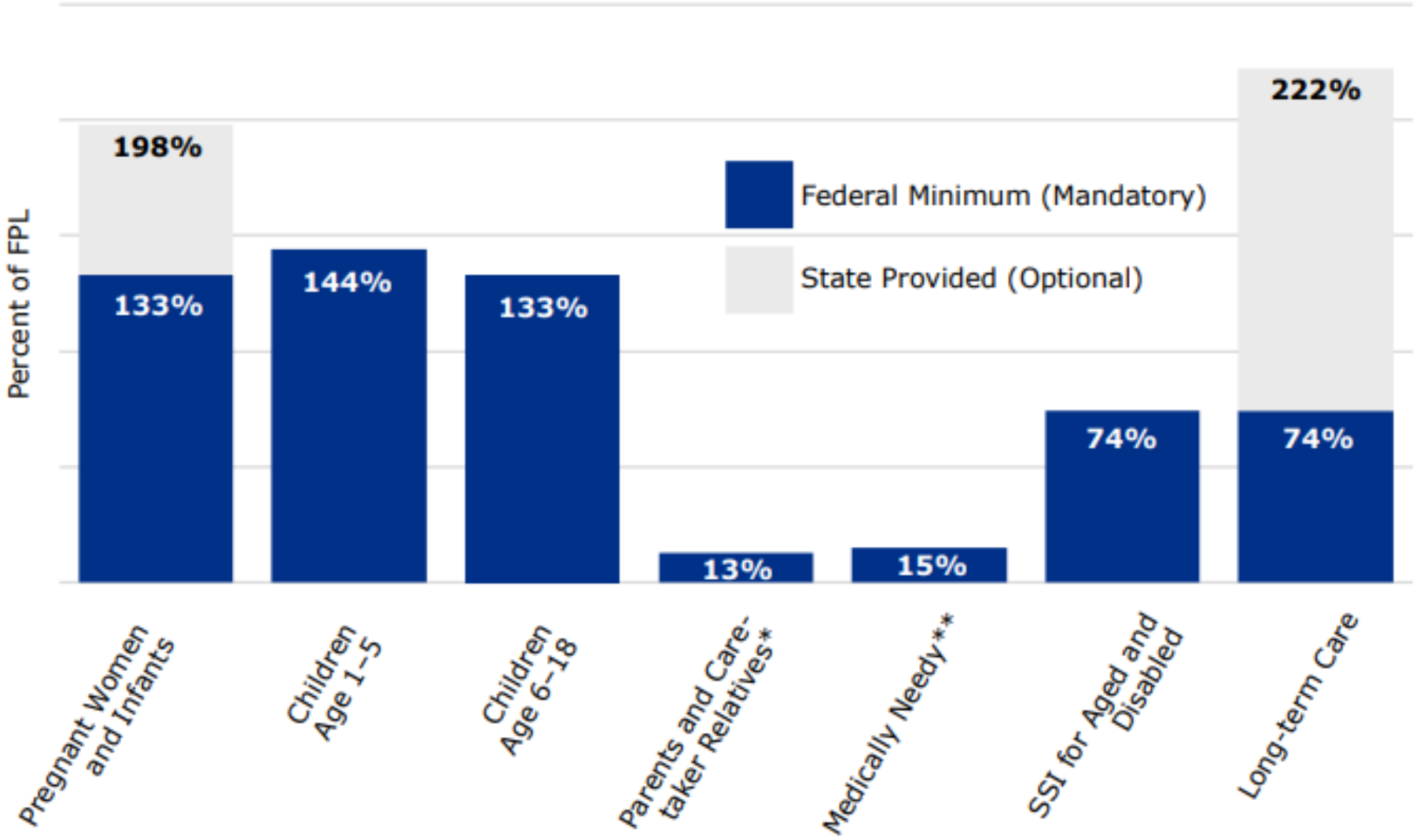
Medicaid
A deeper dive

Where do Texans get their health insurance coverage?



Blues = public payers
Reds = private payers
Gold = no 3rd party payer

Texas Medicaid Income Eligibility Levels for Selected Programs, March 2022 (as a Percent of the FPL)



FPL (2021) = annual income of:

- $14,580 for an individual
- $30,000 for a household of 4

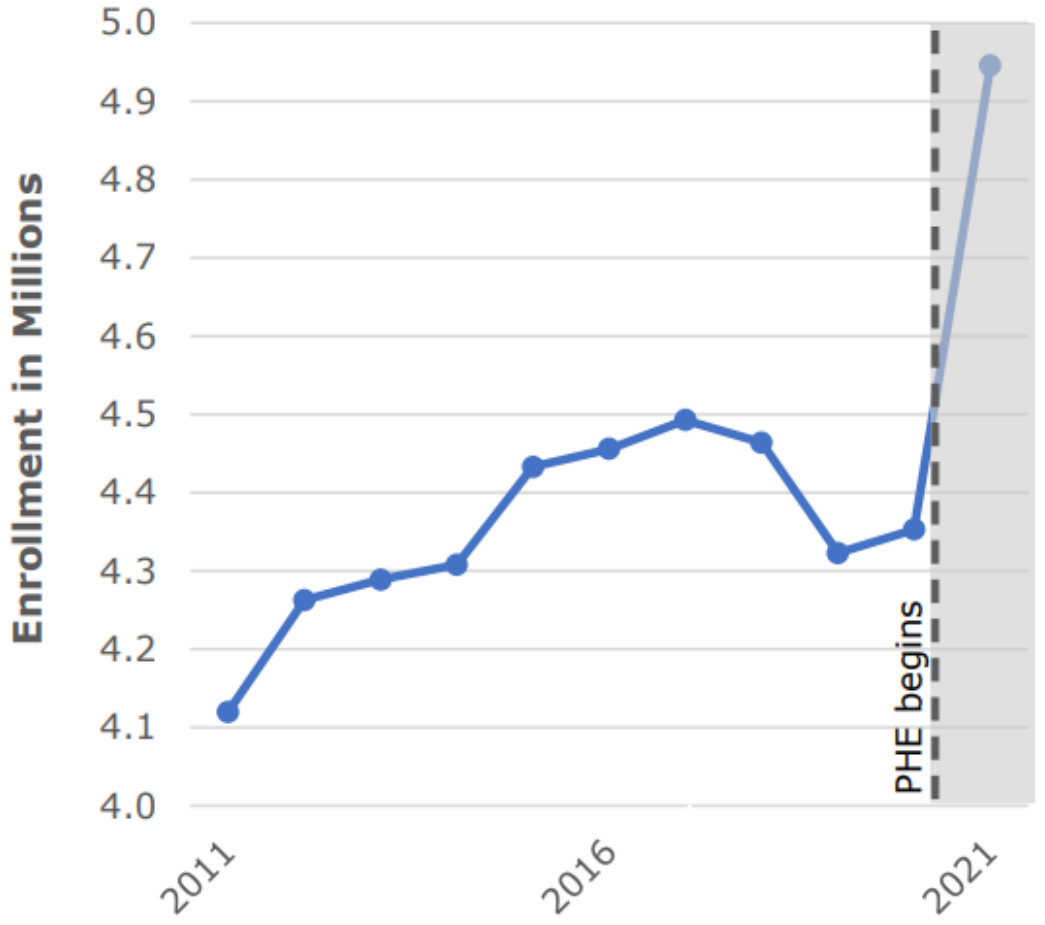
Source: United States Department of Health and Human Services. (2023). 2023 Poverty Guidelines.

Source: Texas Health and Human Services Commission. (2020). Texas Medicaid and CHIP Reference Guide, 14th Edition.

Snapshot of Texas Medicaid and CHIP Clients

Total Medicaid and CHIP Enrollment

Caseloads were impacted by the federal Public Health Emergency (PHE) policy (see Chapter 1, page 12).



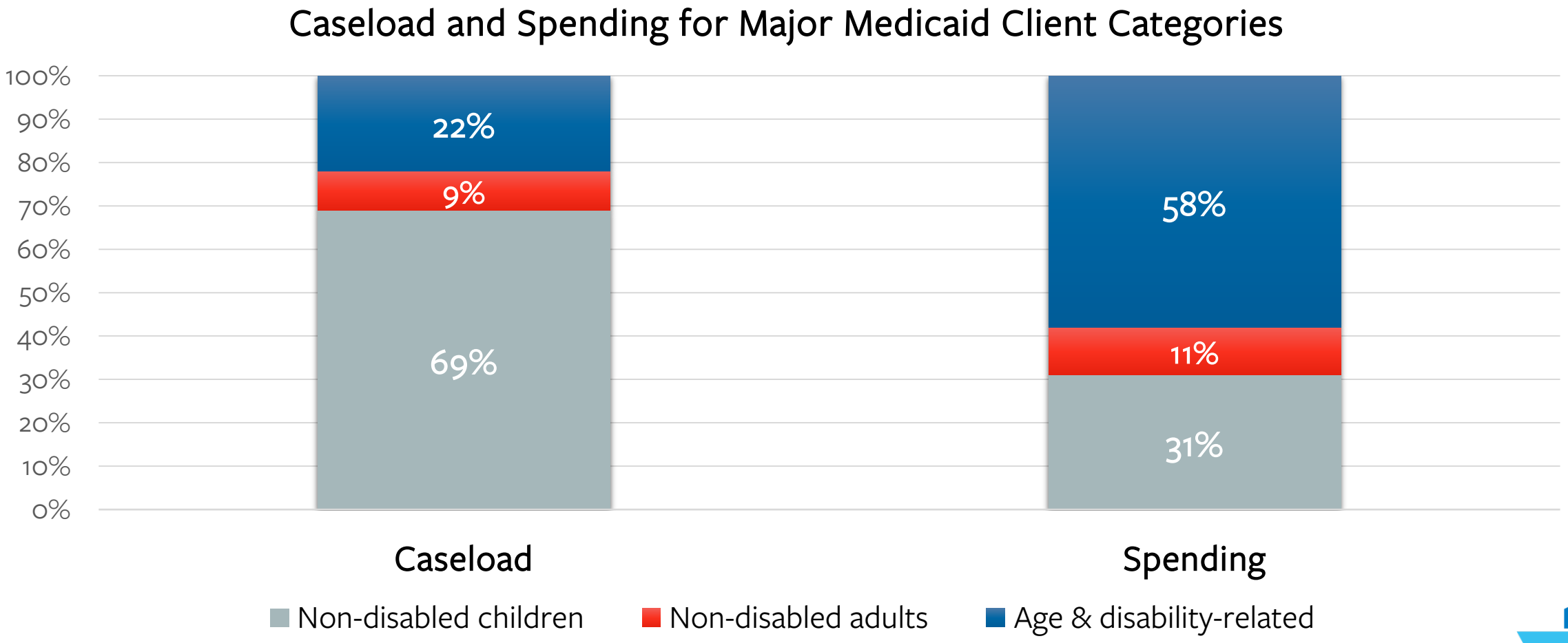
17% of Texans covered

51% of Texas births covered by Medicaid

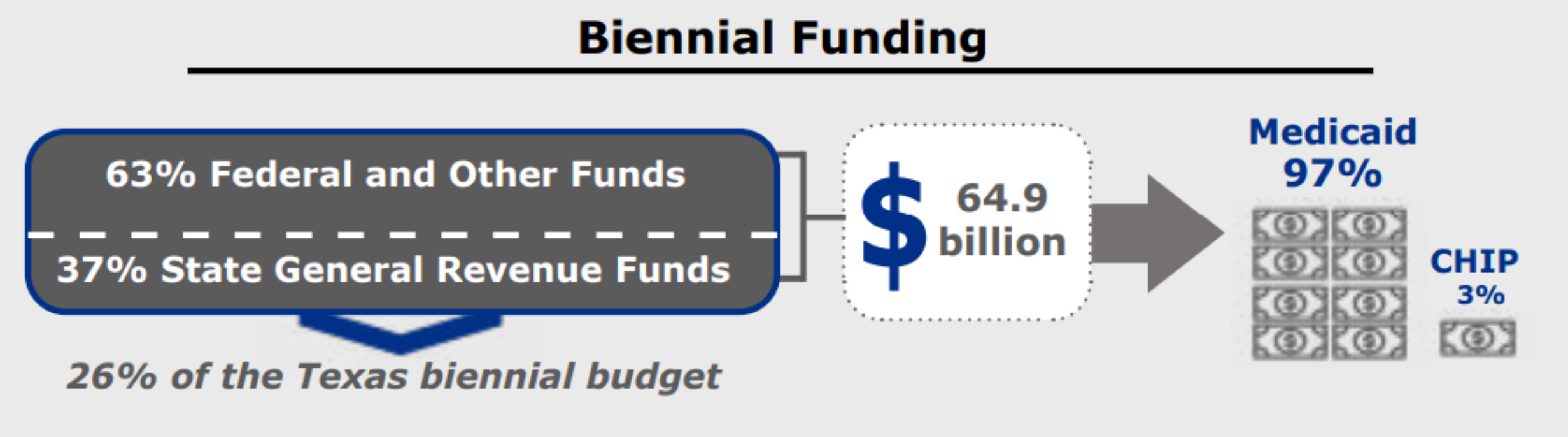
47% of Texas children on Medicaid or CHIP

58% of nursing home residents covered by Medicaid

Most Medicaid enrollees are children.
Most Medicaid spending is on older adults and people with disabilities.



A federal-state partnership funds Medicaid and CHIP



Source: Texas Health and Human Services Commission. (2020). Texas Medicaid and CHIP Reference Guide, 14th Edition.

Definitions

Hospital payments can have two components: **base** and **supplemental**.

- **Base Payment:** Initial payment for a service provided to a Medicaid or Medicare beneficiary. Often paid using a diagnosis related group (DRG), per diem, per stay, or other fee schedule. Base hospital payments are low in Medicaid.

Medicaid Base Payment

On average, Texas Medicaid only reimburses hospitals for **72% of allowable inpatient costs** and **75% of allowable outpatient costs.**

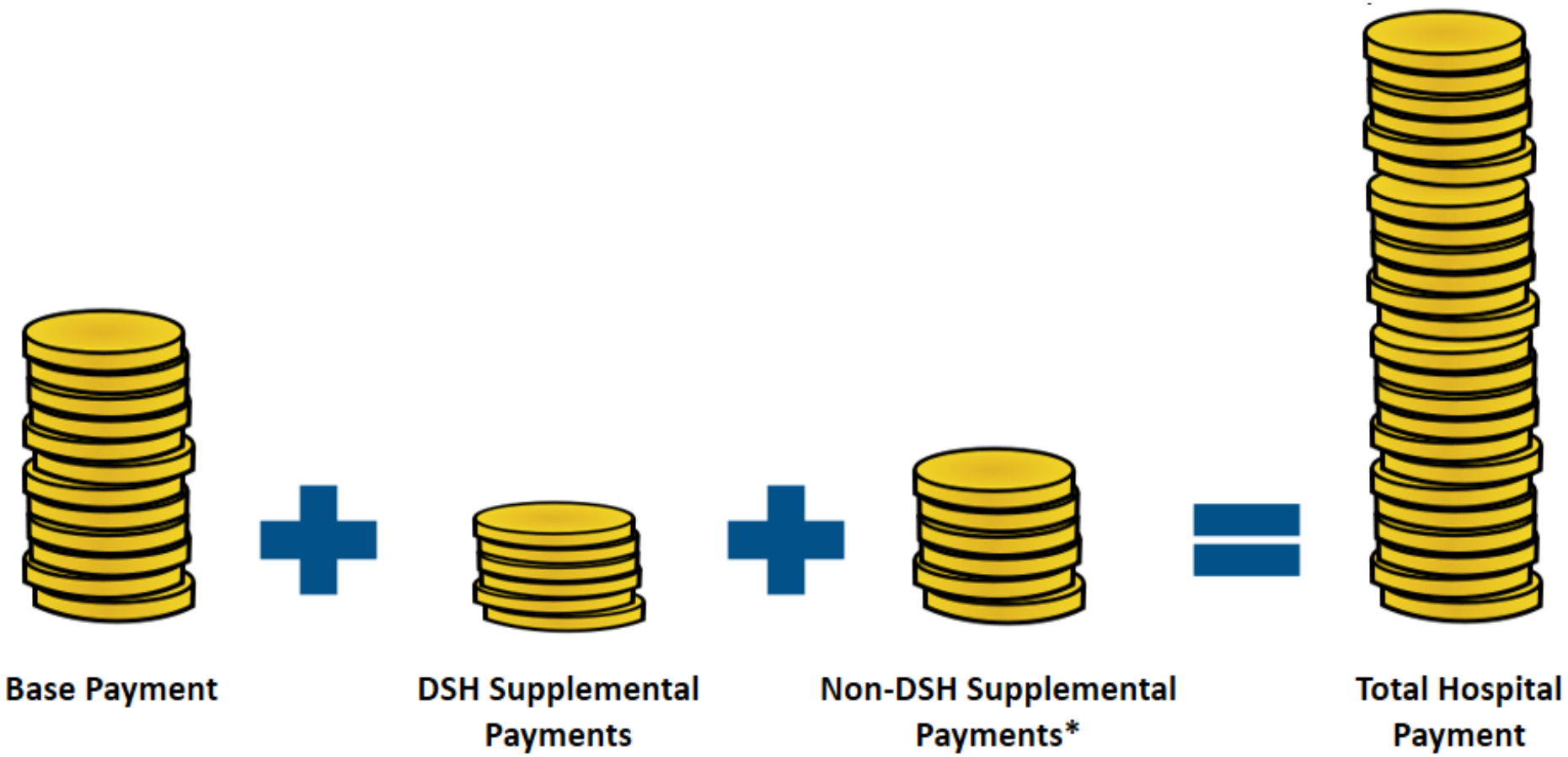
Source: Manatt

What are supplemental payments and why are they needed?

Supplemental Payment: Any payment over and above the initial payment for a service.

Figure 1

Medicaid payment to hospitals consists of base payments as well as supplemental payments.



Source: Kaiser Family Foundation

Texas' authority to administer certain Medicaid supplemental payments comes from its §1115 Waiver

What is a 1115 Waiver?

Section 1115 waivers allow flexibility for states to test new reforms and innovations that may improve quality and generate savings in their Medicaid programs.

The **Texas Healthcare Transformation and Quality Improvement Program**, also known as the 1115 Healthcare Transformation Waiver, gives Texas authority to operate:

- An expanded managed care service delivery model
- Charity care funding pools (including the Uncompensated Care pool)
- Numerous directed payment programs (DPPs)

CMS approved a 10 year extension of Texas' current waiver on January 15, 2021.

1115 Waiver Update

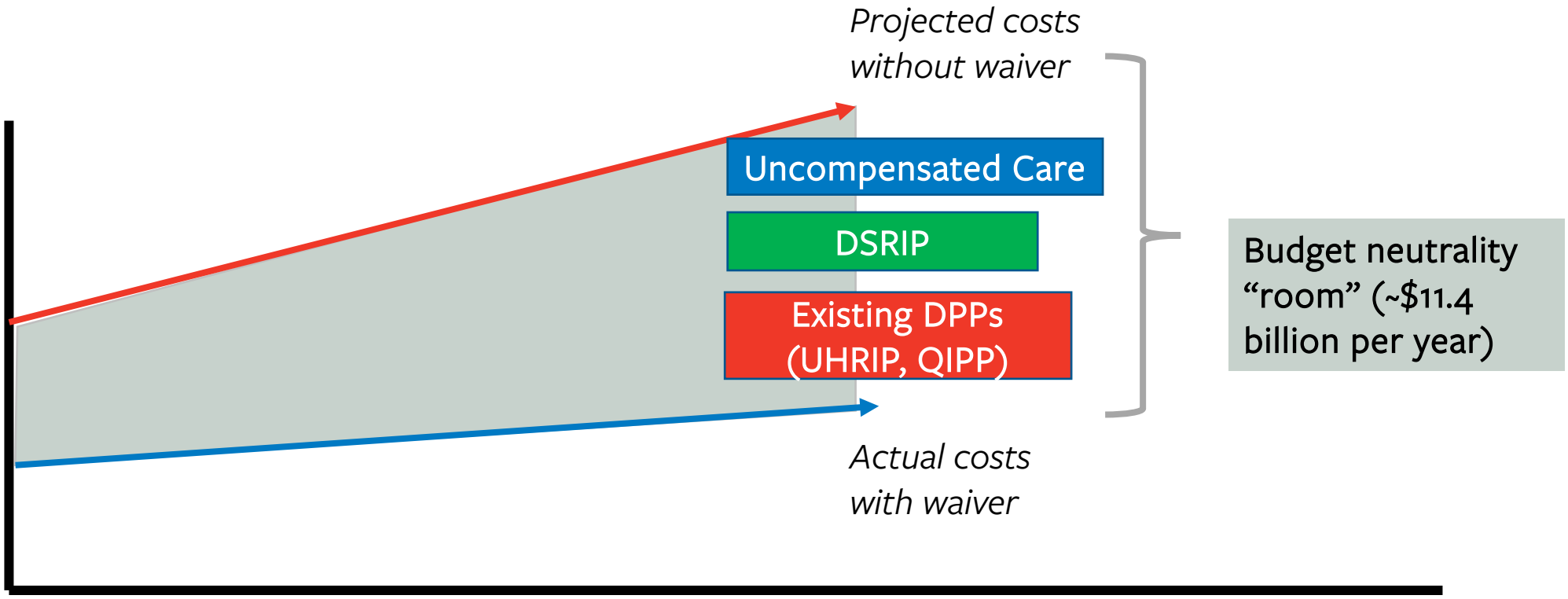
Where are we in current 1115 waiver?

DSRIP transition to Directed Payment Programs (DPPs)

What's ahead?

1115 Waiver Budget Neutrality – FY 2021

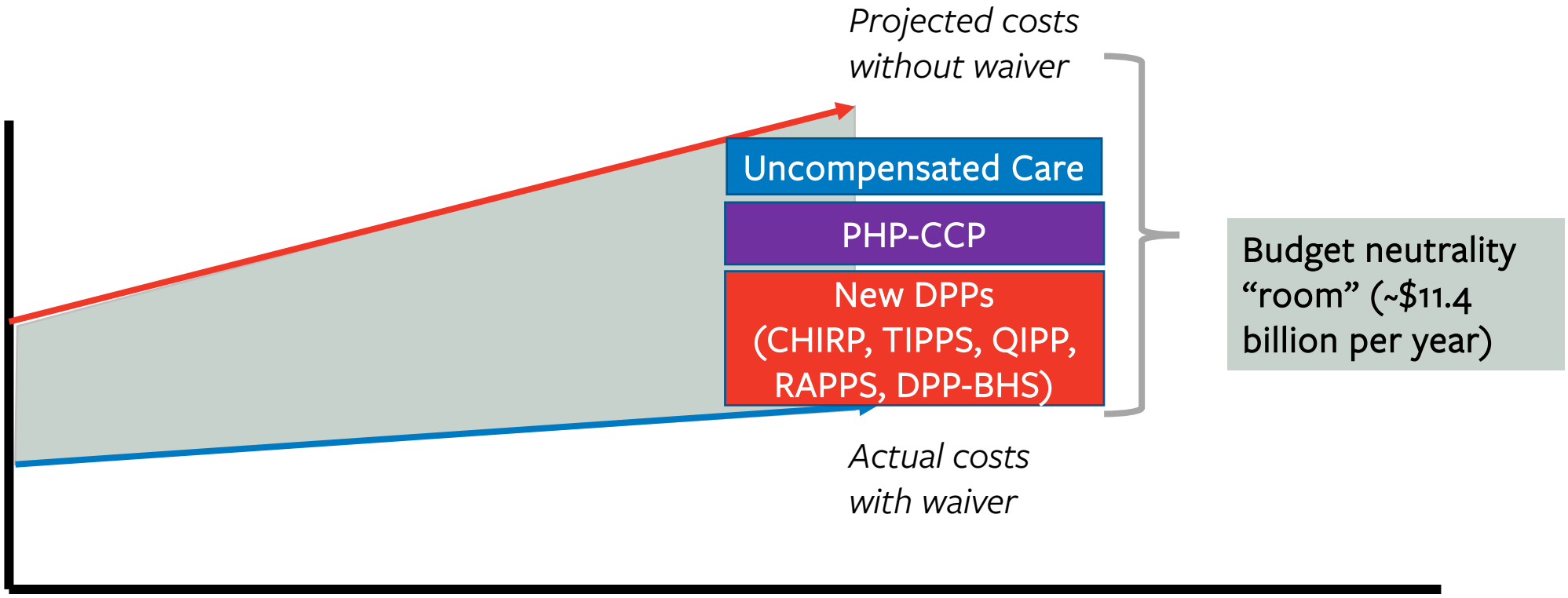
Federal "budget neutrality" requires a state spend no more under its waiver than it would have spent without the waiver.



Source: Texas Health & Human Services Commission

1115 Waiver Budget Neutrality - FY 2022 (proposed)

Federal "budget neutrality" requires a state spend no more under its waiver than it would have spent without the waiver.



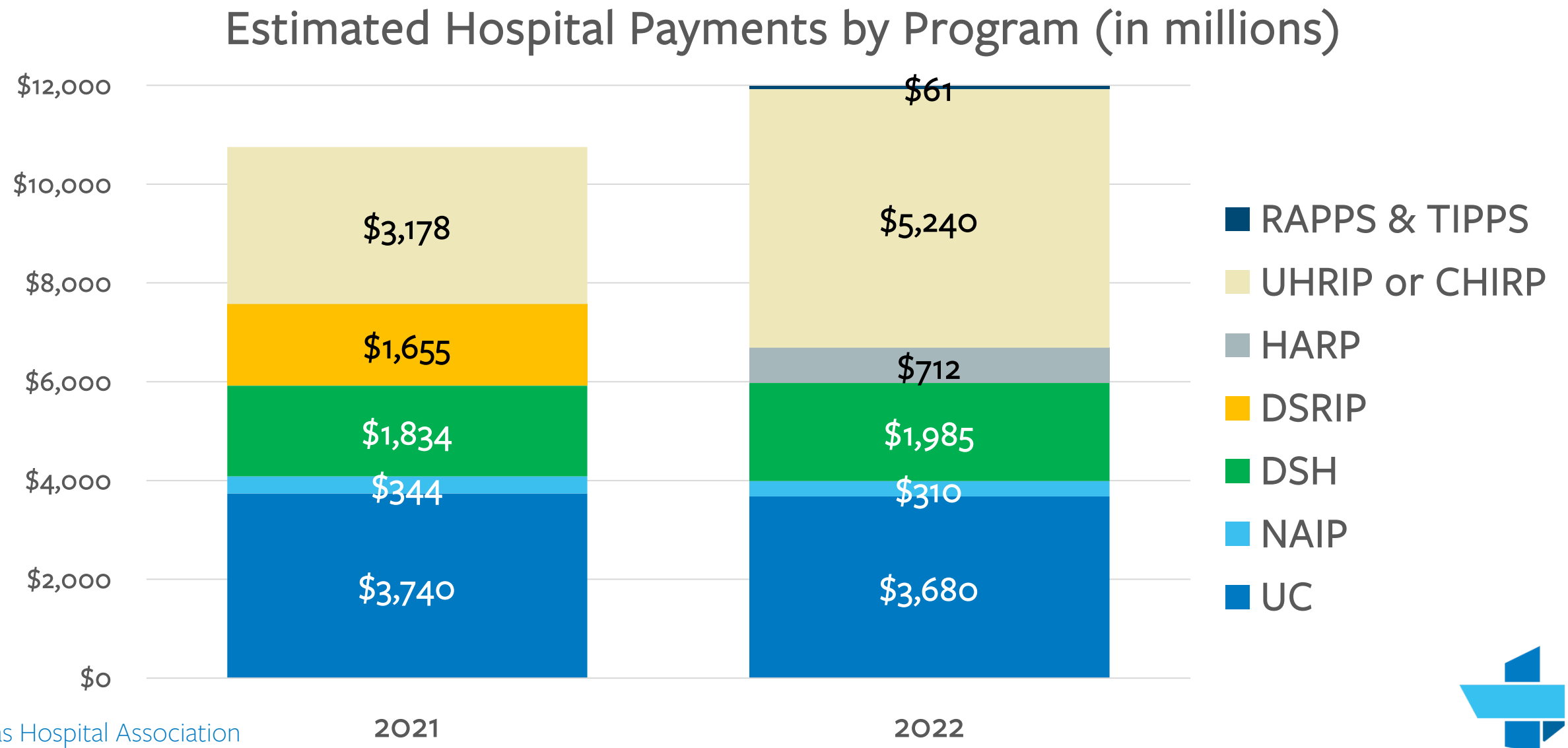
Source: Texas Health & Human Services Commission

Texas Directed Payment Programs, FY 2023

Requested Program	Benefitting	Approved Size (annual)
Comprehensive Hospital Increased Reimbursement Program (CHIRP)	Hospitals	$5.24 billion
Quality Incentive Payment Program (QIPP)	Nursing facilities	$1.1 billion
Texas Incentives for Physicians and Professional Services (TIPPS)	Physician groups	$738 million
Rural Access to Primary and Preventive Services (RAPPS)	Rural health clinics	$31.2 million
DPP for Behavioral Health Services (DPP-BHS)	Community mental health centers	$253 million
	TOTAL	$7.4 billion

DPPs operate under separate statutory authority from the waiver, but pool sizes are tied to the waiver's budget neutrality upper limit. DPPs are subject to annual CMS approval.

1115 Waiver & DSRIP Transition

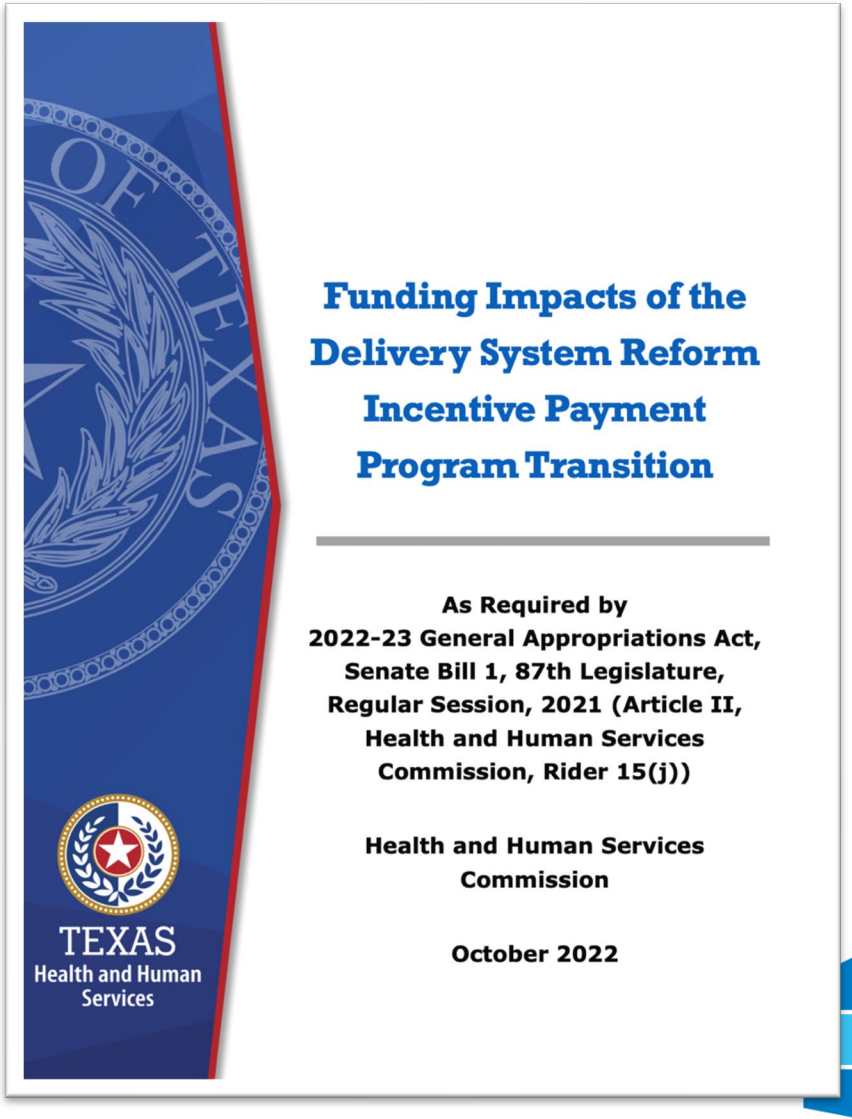


Source: Texas Health & Human Services Commission

1115 Waiver & DSRIP Transition

Texas HHSC:

- "...the transition has resulted in disparate impacts in rural and urban markets."
- "...payment projections [for rural hospitals] for fiscal year 2022 and after are not equivalent to payment levels under DSRIP. This difference is largely a result of all successor programs being based in some manner on Medicaid beneficiary utilization, rather than an allocation basis"



Funding Impacts of the Delivery System Reform Incentive Payment Program Transition

As Required by
2022-23 General Appropriations Act, Senate Bill 1, 87th Legislature, Regular Session, 2021 (Article II, Health and Human Services Commission, Rider 15(j))

Health and Human Services Commission

October 2022

TEXAS
Health and Human Services

What's ahead?

HHSC Recommendations:

1. Evaluate the state payment cap definition in DSH and UC to prevent rural recoupments
2. Evaluate and modify DSH allocation methodology to consider % of total Medicaid and uncompensated costs reimbursed

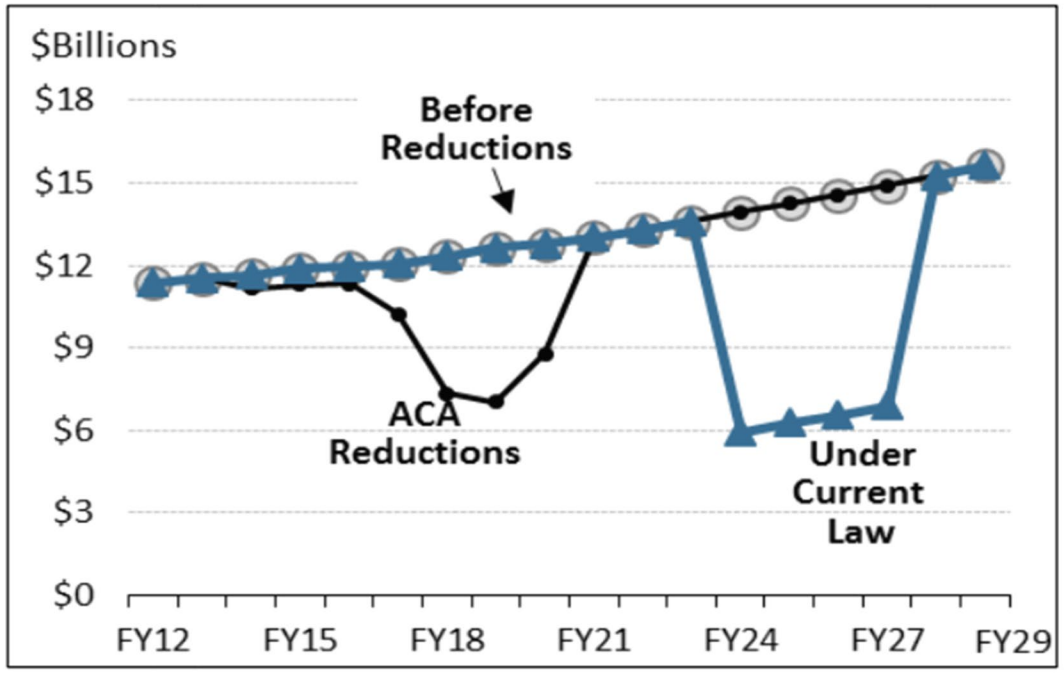
"DSH is the only Medicaid reimbursement option that remains for uncompensated Medicaid costs or non-charity uncompensated care, which is common among rural providers"

Don't forget…

DSH Reductions Loom in FY 2024

- Original ACA DSH reductions delayed repeatedly.
- CMS to apply smaller reductions to states with higher DSH utilization, % Medicaid and uninsured, and uncompensated care
- DSH scheduled to reduce by $8 billion from FY 24-27
- An $8 billion federal DSH reduction could result in an $833 million reduction for Texas. (MACPAC, 2019)

Figure 1. Total DSH Allotments Before the Reductions, with the ACA Reductions, and Under Current Law



Source: CRS calculation using Consumer Price Index for All Urban Consumers estimates from Congressional Budget Office, *An Overview of the Economic Outlook: 2021 to 2031*, February 2021.

Source: Congressional Research Service, 2022

Questions?

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