



TESTIMONY FOR HUMAN SERVICES HEARING on 1115 WAIVER

The Centers for Medicare & Medicaid Services notified Texas on April 22, 2002, that effective immediately, it was withdrawing the recission of the state's 1115 Medicaid waiver and reinstating the 10-year waiver extension. The Texas Healthcare Transformation and Quality Improvement Program waiver is now approved as extended by CMS on Jan. 15, 2021 and governed by the special terms and conditions contained in that extension.

The Texas Hospital Association and its members strongly support the extension of the state's 1115 waiver, which is a critical component of the state's health care delivery system. Millions of vulnerable Texans rely on the health care safety net. From routine health care services, chronic disease management, behavioral and public health support, to specialized, life-saving care, the waiver extension supports critical infrastructure in communities across the state.

The approval locks in for 10 years:

- Texas' authority to operate managed care programs in Medicaid;
- a continued uncompensated care pool for hospitals to offset Medicaid underpayments and some of the costs providers incur for treating uninsured individuals (valued at \$3.9 billion per year);
- a new uncompensated care pool for local health departments and public mental health providers (valued at \$500 million per year);
- a transition of the Delivery System Reform Incentive Payment (DSRIP) waiver program into five new directed payment programs for hospitals, rural health clinics, physician groups, nursing facilities and community mental health centers (valued at \$6.7 billion per year); and,
- budget neutrality methodology previously agreed between Texas and CMS, including carryforward of savings accumulated by the state under prior waiver years, which reflects an estimated \$10 billion savings to taxpayers over the life of the waiver.

The importance of Texas' 1115 waiver cannot be understated. The decision by CMS is a very positive step forward for the health of Texas and brings relief for hospitals and the patients they serve following months of ambiguity during an ongoing pandemic.

Texas hospitals were also relieved to see the approval of the first year of the state's Directed Payment Programs. In accordance with the waiver's terms and conditions, those DPPs are negotiated and approved annually. First year approval of the Comprehensive Hospital Increased Reimbursement Program (CHIRP), as well as two other DPPs, took more than eight months to finalize. During the months that the reimbursement program was not approved, the funds were not paid, causing a lapse of more than \$7 million per day in rate enhancements to Texas hospitals. This eight-month delay of funds, during the COVID-19 pandemic, was an extreme stressor to the state's providers. Interruptions in payment cycles and slow approvals on program

mechanics create issues for hospitals and prompt threats of closure, particularly for smaller hospitals that do not have the reserves to handle payment turbulence and uncertainty.

We are working now with the Texas Health and Human Services Commission and our health plan partners to retroactively reinstate those payments. The second year of the directed payment programs is scheduled to begin in September. Texas already submitted applications to CMS for the second year of each program and is in the process of addressing CMS feedback. Texas hospitals ask the state to continue to support the annual approval of these critical directed payment programs.

Additionally, the U.S. Health and Human Services' Office of Inspector General issued a letter notifying HHSC of its intent to conduct an audit of the state's Local Provider Participation Funds. The audit is intended to determine whether using LPPF-derived funds as the state share of Medicaid payments is permissible and in accordance with applicable federal and state requirements. Like all Medicaid payments, supplemental payments require the combination of a non-federal payment and federal payment. In Texas, hospitals themselves finance the non-federal contribution through intergovernmental transfers from public hospitals and from LPPFs. Since 2013, the Texas legislature has approved 28 LPPFs for the purpose of generating a source of the non-federal share of supplemental Medicaid payments. We expect the audit will be ongoing for more than a year, and Texas hospitals look forward to a positive conclusion.

The Texas Hospital Association has been strongly advocating for reinstatement of the extension of 1115 Medicaid waiver. We will also continue to strongly advocate for the state to expand coverage to low-income working age adults, in addition to our ongoing support of 12-month postpartum Medicaid coverage and continuous Medicaid eligibility for children. As the state with the highest number and percentage of uninsured, coverage expansion coupled with a strong uncompensated care pool are both critical tools for the state's hospitals. One in five uninsured Texans would be covered under expansion, providing health care coverage and a medical home to 1.2 million Texans. However, the remainder of today's 5 million uninsured who would not be captured in a coverage program will continue to seek care in the state's emergency rooms and hospitals, where federal law requires hospitals to provide care to patients regardless of their ability to pay. The waiver and coverage expansion should work together. The waiver's UC pool is critical to ensure continued care to these uninsured patients.

Texas hospitals appreciate the strong bipartisan support of the state's 1115 waiver and the work of the Texas Health and Human Services Commissioner and the state's leadership in securing the 10-year extension. We will continue to work closely with our state and federal partners on the waiver and on next steps to best suit the unique needs of our growing and thriving state.

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