Healthcare Finance Update

Rural Healthcare Symposium
Monday, March 21, 2022

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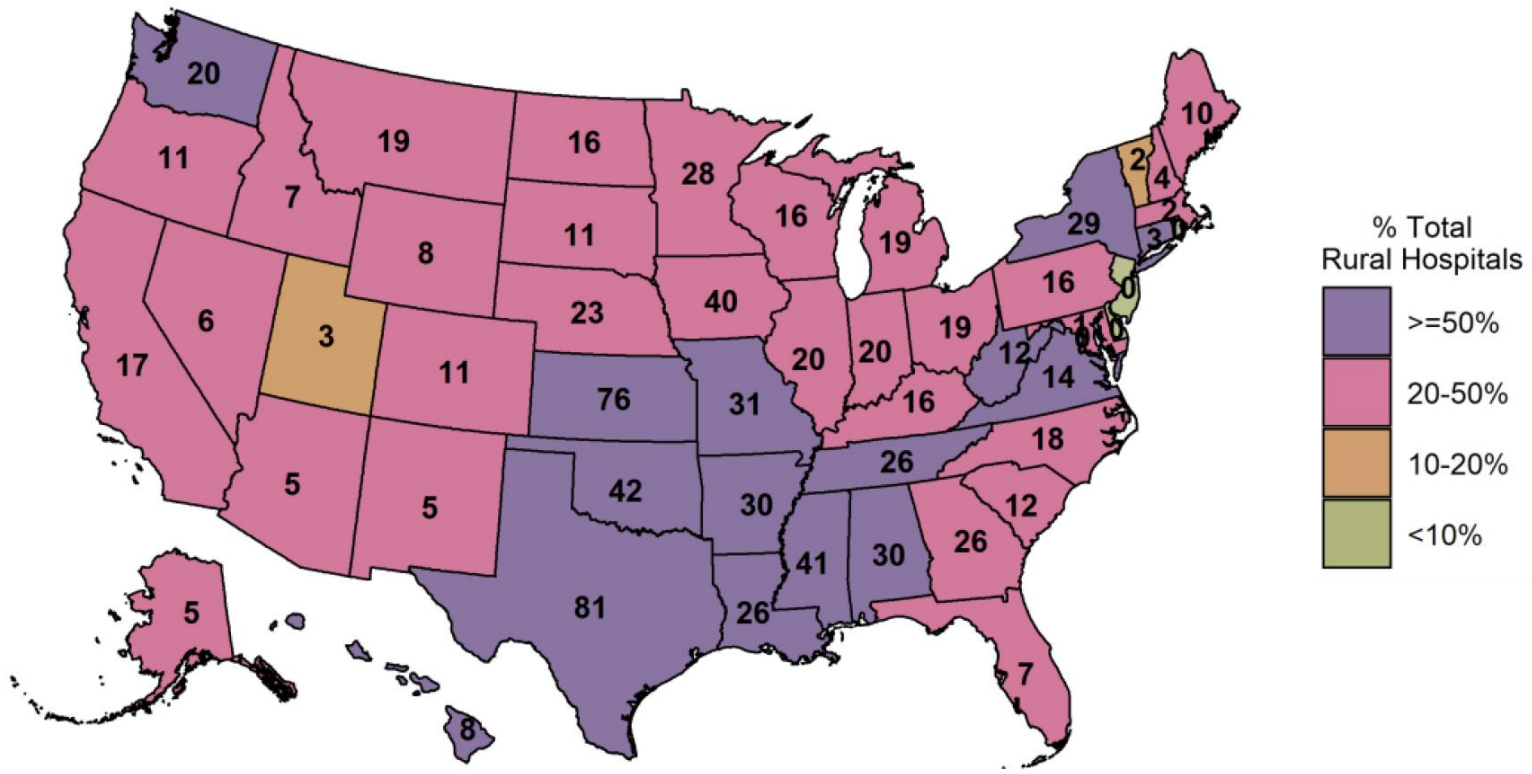
Learning Objectives

- Summarize recent developments in Texas' 1115 waiver and directed payment programs, including status of negotiations between the state and federal government.
- Describe the outlook for other major government revenue streams, including Medicaid supplemental payments, Medicare, and Provider Relief Funds.
- Anticipate impacts of current funding challenges on rural health care in Texas.

Rural Hospitals at Immediate or High Risk of Closing



Source: Center for Healthcare Quality and Payment Reform. January 2022

As of January 2022, 81 of 146 rural hospitals in Texas (55%) are at immediate or high risk of closure.

Threats:

- Persistent financial losses
- Low or non-existent financial reserves
- High dependence on non patient service revenues.

Key Payment Sources are in Transition

In Medicaid 1115 Waiver

- Uncompensated Care (UC)
- Delivery System Reform Incentive Payment (DSRIP)*
- Directed Payment Programs (DPP)**

Non-Medicaid 1115 waiver

- Disproportionate Share Hospital (DSH)
- Provider Relief Funds and ARP Rural Funds

*expired 9/30/21
**pending, unapproved

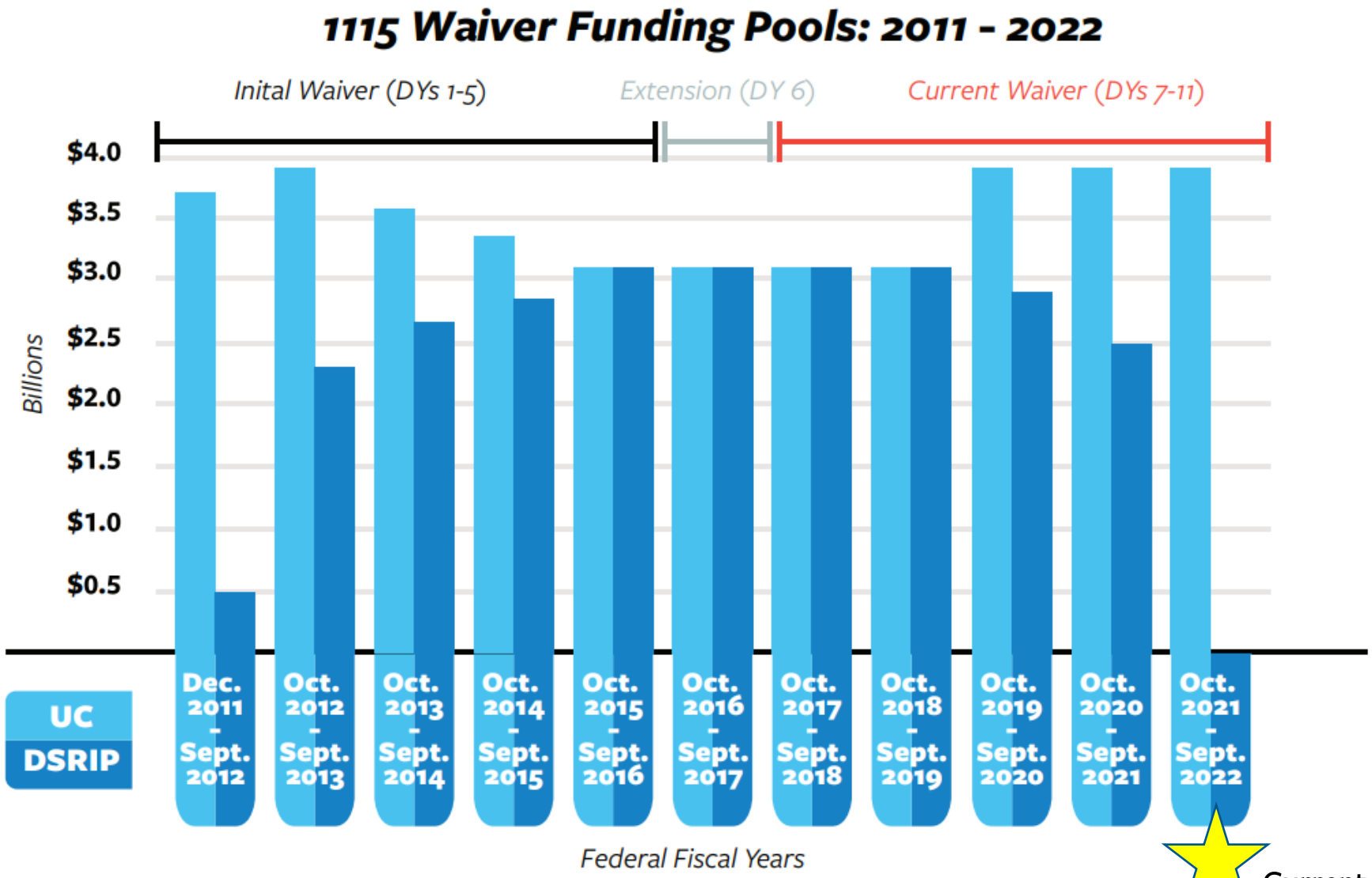
1115 Waiver Update

Where are we in current 1115 waiver?

How was DSRIP proposed to transition to Directed Payment Programs (DPPs)?

What's taking so long? Overview of negotiations and legal action.

Where are we in current 1115 waiver?



CMS approved a 10-year extension of Texas' current 1115 waiver on January 15, 2021.

New extension set budgetary terms for:

- Transitioning DSRIP into new state directed payment programs (DPPs) valued at $6.7 billion per year
  - *DPPs are subject to approval outside of waiver*
- New charity care pool for community mental health & public health providers (PHP-CCP) valued at $500 million per year
- $3.9 billion per year for payments for uncompensated care
- Average $11.4 billion per year above base expenditures

Source: Texas Health & Human Services Commission

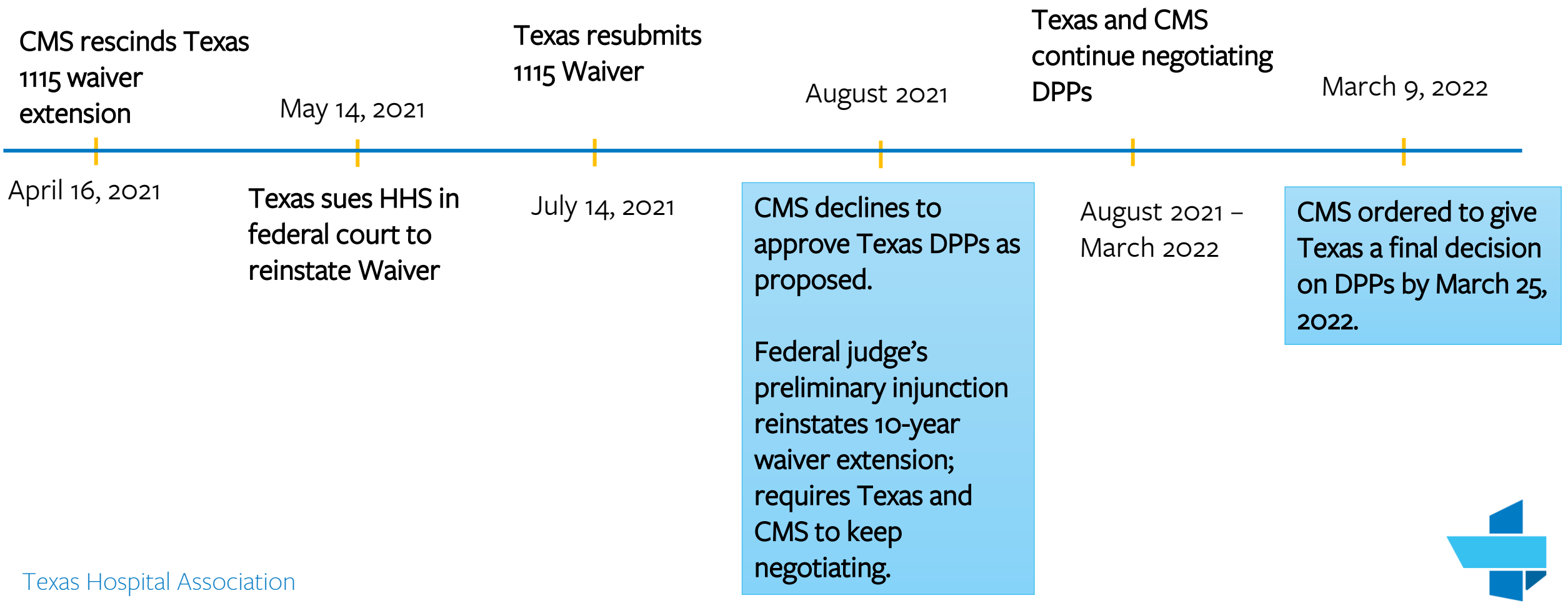
DSRIP Transition to Directed Payment Programs in FY 2022

What did Texas propose?

Requested Program	Benefitting	Estimated Size (annual)
Comprehensive Hospital Increased Reimbursement Program (CHIRP)	Hospitals	$4.72 billion
Quality Incentive Payment Program (QIPP)	Nursing facilities	$1.1 billion
Texas Incentives for Physicians and Professional Services (TIPPS)	Physician groups	$600 million
Rural Access to Primary and Preventive Services (RAPPS)	Rural health clinics	$11.2 million
DPP for Behavioral Health Services (DPP-BHS)	Community mental health centers	$166 million
Ambulance Average Commercial Reimbursement Program (A-ACR)	Public ground ambulance providers	$150 million
	TOTAL	$6.7 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.

After CMS rescinded Texas' waiver extension due to lack of federal comment period, Texas sued and resubmitted its waiver.



What happened during DPP negotiations?

- CMS and Texas have met every 2 business days since August to continue negotiating the DPPs.
- Initially, CMS named 19 concerns across the 5 DPPs. All but one concern is now resolved.
- Two DPPs were approved in November: DPP-BHS and QIPP.
- CHIRP, TIPPS, and RAPPS remain pending before CMS

Where did negotiations get stuck?

- *Local Provider Participation Funds (LPPFs), a provider taxing mechanism Texas uses to generate the nonfederal share of Medicaid supplemental payments.*
- *CHIRP, TIPPS, and RAPPS are all financed by LPPF.*

CMS and Texas dispute whether Texas' nonfederal Medicaid funds are permissible

CMS Position	Texas Position
CMS believes Texas' LPPFs impermissibly hold providers harmless for certain taxes they pay to fund Medicaid. • Hold harmless prohibition: "*The State (or other unit of government) imposing the tax provides for any [payment] such that the provision of that [payment] guarantees to hold taxpayers harmless for all or any portion of the tax amount*" 42 C.F.R. § 433.68(f)(3) Federal matching funds are not permitted where a hold harmless arrangement exists. CMS is withholding approvals unless Texas provides attestations from all participating hospitals that they do not participate in arrangements involving the redistribution of Medicaid payments.	Supplemental payments are tied to Medicaid utilization, not tax amount. More Medicaid patients = higher payment. Texas cannot guarantee any payment will meet or exceed tax paid. Texas has no knowledge that any private providers have entered into agreements to redistribute Medicaid funds. Texas does not restrict how providers use payments for care delivered to Medicaid enrollees once received. Texas argues the hold harmless prohibition applies only to agreements involving government entities, not private parties. Texas believes CMS has no statutory or regulatory basis to withhold approvals. Texas believes CMS's objections are better explained as "vexatious delay."

Now what?

(The DPPs)

DSH Update

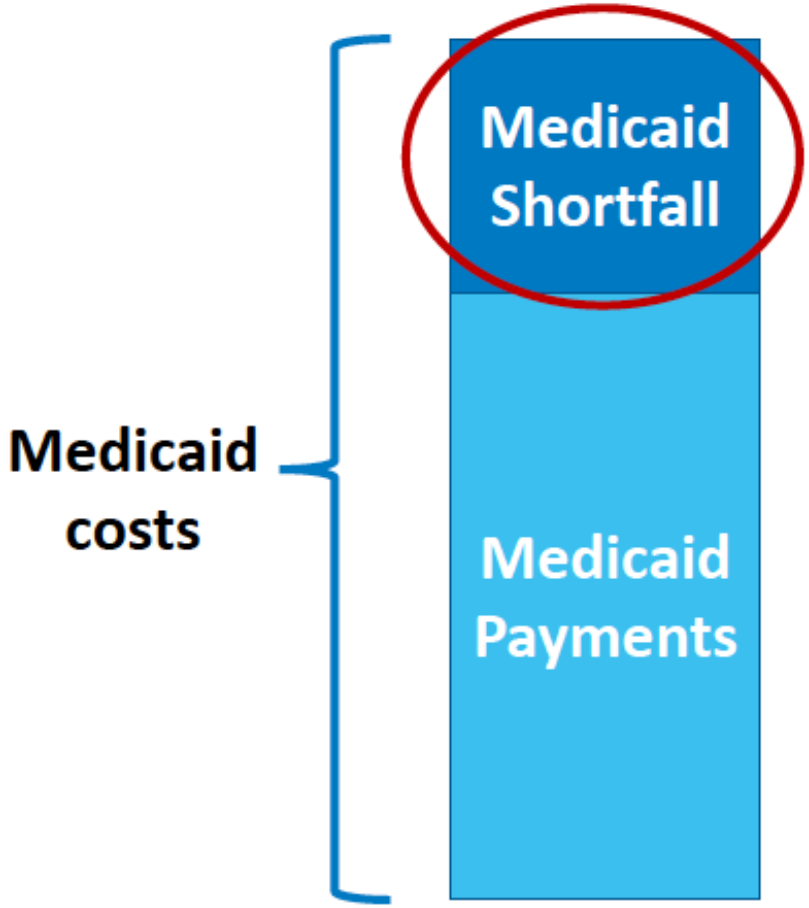
Why did my hospital just receive a Notice of Overpayment based on the 2018 DSH audit?

What methods are now being used to calculate the Medicaid shortfall in DSH?

Will this continue to happen?

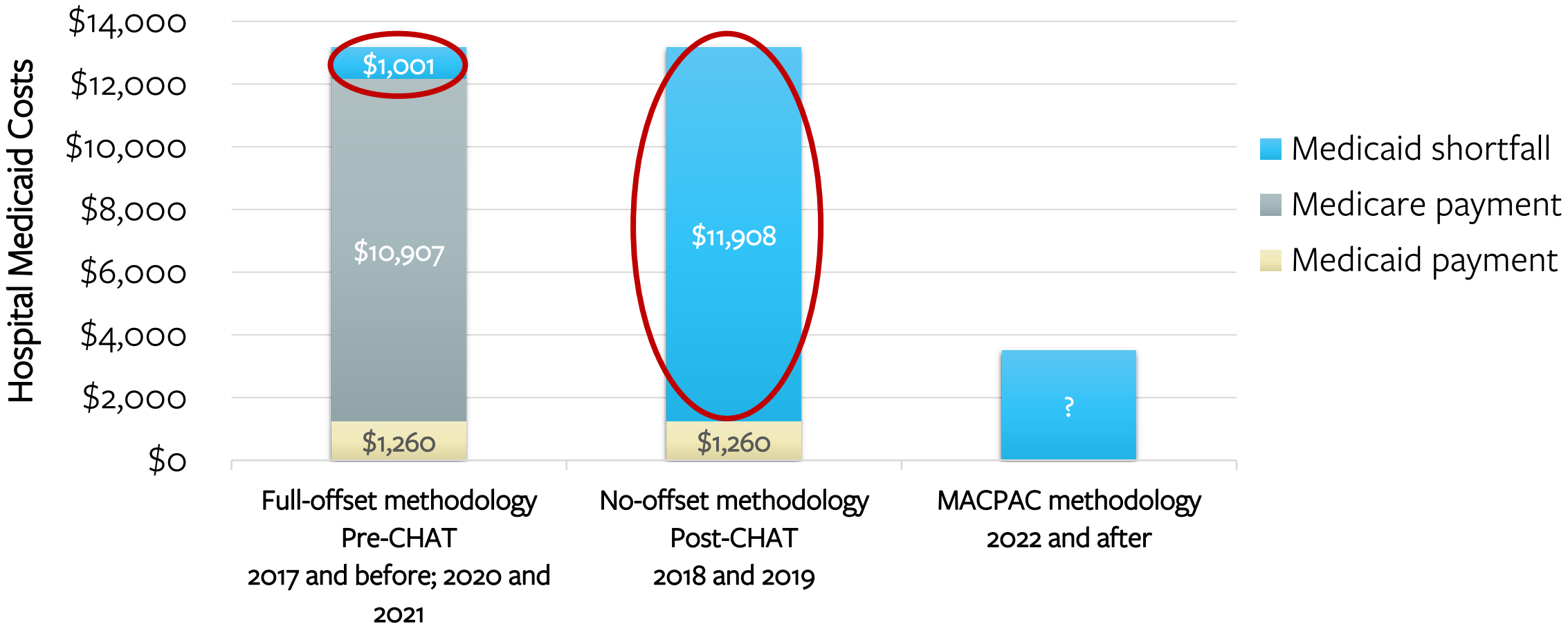
What is the hospital specific limit (HSL)?

- Governs the amount of funding available through DSH, other supplemental payments
- HSL = Medicaid shortfall (costs minus payments) + cost of providing care to the uninsured
- *Issue: How are dual-eligibles treated in the Medicaid shortfall calculation?*



Examples of Medicaid Shortfall under Different Methodologies

Counting patients with Medicare/3rd party coverage



Medicaid Shortfall Methodologies

How do Medicare and commercial payments for Medicaid beneficiaries count in calculation of DSH hospital specific limit?

Method of Calculating Shortfall	Medicaid patients with another source of coverage			Medicaid-only patients	
	Costs	Other payments	Medicaid payments	Costs	Payments
Pre-CHAT Full-offset	☑	☑	☑	☑	☑
Post-CHAT No-offset 2018 & 2019 DSH PAYMENTS	☑	☒	☑	☑	☑
MACPAC 2022 ONWARD	☒	☒	☒	☑	☑

DSH Recoupments from 2018 Audit

Recoupments are happening because the Medicaid shortfall definition used to make payments does not match the definition used to conduct audit.

- DSH audits occur on a 3-year lookback. (ex: 2018 DSH audit occurred in 2021).
- During the 1st week of March 2022, HHSC began distributing Notices of Overpayment of 2018 DSH Funds. Notices included a demand for return of overpaid funds.
- When HHSC made DSH payments for 2018, the law was to count all costs for Medicaid beneficiaries with other coverage but none of their Medicare/3rd party payments. Known as "no-offset methodology."
- After the CHAT lawsuit terminated, CMS counted all Medicare/3rd party payments during audits. Known as "full-offset methodology."
- Same thing will happen in 2022 (2019 DSH audit), and possibly again in 2025 (2022 DSH audit).

Provider Relief Funds & American Rescue Plan (ARP) Rural Funds

- PRF Phase 4 distribution = $17 billion. ARP Rural distribution = $8.5 billion.
- Around $11.5 billion in PRF Phase 4 is distributed. $5.5 billion yet to be distributed.
- Around $7.5 billion in ARP Rural is distributed. $1 billion yet to be distributed.
- HRSA continues to process the remaining 14% of Phase 4 applications and remaining 4% of ARP Rural applications.
- HHS recently confirmed that once remaining funds are disbursed the PRF will be exhausted, excluding returned or repaid amounts.
- Congress is unlikely to make further appropriations to the fund. Hospital industry has advocated for additional $25B in appropriations to cover delta and omicron surges.
- PRF Reporting Period 2 ends March 31, 2022.

COVID-19 Uninsured Program Ending Soon

- Throughout pandemic, federal government reimbursed hospitals for COVID-19 testing, treatment, and vaccination of uninsured patients.
- Congress passed $1.5T omnibus to fund government through FFY 2022. *Package contained $0 of requested $30B in COVID-19 funds.*
- Payments for COVID-19 testing, treatment, and vaccination of uninsured will terminate imminently due to lack of sufficient funds.
  - March 22, 2022 at 11:59 pm ET: uninsured testing and treatment claims stop being accepted.
  - April 5, 2022 at 11:59 pm ET: uninsured vaccination claims stop being accepted.
  - Claims submitted by these deadlines will be paid "subject to availability of funds."
- *Unknown: How much PRF remains to pay claims in process or submitted by deadlines?*

Medicaid disenrollments at the end of the Public Health Emergency

- To receive enhanced federal funds during the COVID-19 public health emergency (PHE), states have been prevented from disenrolling anyone from Medicaid.
- Texas Medicaid enrollment grew 27% since March 2020, from 4 million enrollees to >5 million.
- Current PHE declaration expires April 15, expected to be extended another 90 days (until July). Impacts waivers, flexibilities, payments, FMAP %, and timing of Medicaid redeterminations of eligibility.
- When PHE ends, Texas will have to redetermine eligibility for about 4 million enrollees. **>1M Texans potentially disenrolled.**
- Hospitals concerned eligible individuals could lose coverage ***unless*** HHSC performs:
  - Thorough certification efforts (e.g. address verification)
  - Seamless transitions to other coverage options (e.g. Marketplace)

Questions?

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