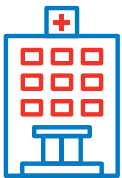


## MEDICAID'S ROLE IN HOSPITAL FINANCING

The Texas Medicaid program, a state and federal partnership, has a complex and vital role in how Texas hospitals are paid. It includes both:



- **Base payments** for health care services delivered to those insured through the Medicaid program.
- **Supplemental and directed payments** that partially offset the costs of caring for Texans without health insurance and the lower-than-cost Medicaid reimbursement.



All Medicaid payments to hospitals – whether base payments, supplemental payments or directed payments – require a non-federal contribution of funds to draw down the federal Medicaid matching payment. This non-federal contribution comes from state general revenue, or local government funds derived from property taxes or assessments on hospital net patient revenue.

## Medicaid Shortfall



For delivering Medicaid-covered services to approximately 5 million Medicaid beneficiaries, most hospitals in the state are reimbursed at approximately 73% of audited allowable costs. **This underpayment contributes to a Medicaid shortfall for Texas hospitals of \$2.7 billion each year.**

## Texans Without Health Insurance

Texas leads the nation in the number of uninsured residents. Approximately 18%, or **5.2 million**, of Texans have no health insurance. Yet, state and federal laws require Texas hospitals to treat anyone who seeks it, regardless of their insured status or ability to pay. This obligation creates a **financial burden for Texas hospitals of \$5.2 billion** each year.



**5.2 MILLION  
Uninsured  
TEXANS**



**\$5.2 BILLION  
cost to Texas  
HOSPITALS TO  
care for the uninsured**

# HOW MEDICAID AFFECTS HOSPITAL FINANCING:

## Medicaid Base Payment

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



With approximately \$361 million in general revenue appropriated by the 87th Texas Legislature for 2022-23, some hospitals receive increased Medicaid rates because of their vital role as part of the health care safety net benefiting all Texans:

- Rural hospital services
- Designated trauma hospitals
- Designated safety net hospitals



Since 2020, rural hospitals have received a \$500 Medicaid add-on payment for labor and delivery services. The 87th Legislature appropriated \$6.2 million in general revenue to continue funding this add-on payment for 2022-2023.



## Medicaid Supplemental and Directed Payments

Texas operates several types of Medicaid hospital supplemental and directed payments. These payments help mitigate Medicaid rates that are below cost, and the high cost of uninsured care. All require a non-federal contribution in order to receive federal matching funds:

### Disproportionate Share Hospital payments (DSH)

- **180:** Approximate number of Texas hospitals receiving DSH payments.
- **\$1.8 billion:** 2021 DSH payments to Texas hospitals.
  - **\$1.2 billion:** Federal share of 2021 DSH payments (based on enhanced matching payments due to the public health emergency)
  - Congress has repeatedly considered reductions to the federal share of DSH payments in response to health care reform and decreases in the number of uninsured.
  - **\$587 million:** Non-federal share of 2021 DSH payments. The non-federal share of DSH payments is supplied by five large public hospitals. The number of public hospitals transferring non-federal share dollars for DSH has decreased over the past decade.

### Medicaid 1115 Transformation Waiver payments

#### Uncompensated Care payments (UC)

- **376:** Number of Texas hospitals receiving UC payments in 2021
- **\$3.8 billion:** 2021 UC payments to Texas hospitals and providers
  - **\$2.6 billion** = Federal share
  - **\$1.2 billion** = Non-federal share
- **\$4.5 billion:** Total annual available UC funding from 2023 through 2027. CMS granted this increase based on actual costs of uncompensated charity care provided by Texas hospitals.
- As of 2020, uncompensated care payments can only be based on a provider's uninsured charity care costs. Providers no longer receive UC payment for uncovered costs for people with insurance (i.e., the Medicaid shortfall).

# DIRECTED PAYMENT PROGRAMS FOR HOSPITALS

## Medicaid Supplemental Payments

Under financial terms approved in the most recent extension of the Texas Healthcare Transformation and Quality Improvement Program Section 1115, **Texas now operates several Medicaid directed payment programs (DPPs) that benefit hospitals.** DPPs enhance payments to Medicaid providers, bringing reimbursement closer to the actual cost of care. The non-federal share of these programs is provided by hospital IGT payments and LPPF assessments.



Directed Payment Program	Description	Fiscal Year 2023 Approved Amount
<b>Comprehensive Hospital Increase Reimbursement Program (CHIRP)</b>	Payment rate enhancements based on Medicaid managed care claims, tied to quality improvement activities	<b>\$5.24 billion</b>
<b>Texas Incentives for Physicians and Professional Services (TIPPS)</b>	Monthly payments and rate increases to hospital-affiliated physician groups tied to quality improvement activities	<b>\$738 million</b>
<b>Rural Access to Primary and Preventive Services (RAPPS)</b>	Monthly payments and rate increases to hospital-based and other rural health clinics to promote access to primary and preventive care, with payment rate enhancements based on quality metrics	<b>\$31.2 million</b>
<b>Quality Incentive Payment Program (QIPP)*</b>	Per-member per-month, performance-based incentive payments for nursing facilities, including those owned and operated by public hospitals, caring for Medicaid managed care patients	<b>\$1.1 billion</b>

\*- QIPP is a longstanding DPP first implemented in 2017. It is financed with public hospital IGT.

# WHERE DOES NON-FEDERAL FUNDING COME FROM?

## Medicaid Base Payments (State-Funded)

### State General Revenue

- Funds non-federal share of Medicaid reimbursement, which comprises 40% of payment. (During the COVID-19 public health emergency, approximately 34% of total payment.) Also funds non-federal share of Medicaid add-on payments for rural hospital outpatient services, designated trauma hospitals and safety net hospitals.

### Trauma Fund (Account 5111)

- Funds non-federal share of Medicaid add-on payments for designated trauma hospitals and safety net hospitals.

## Medicaid Supplemental and Directed Payments (Hospital-Funded)

### Intergovernmental Transfer Payments (IGT)

- Non-federal share of DSH payments (nearly all provided by the state's five largest public hospitals/hospital districts with taxing authority).
- Non-federal share of 1115 Waiver UC payments (provided by the state's public hospitals/hospital districts with taxing authority).
- Non-federal share of 1115 Waiver DPP payments (provided by the state's public hospitals/hospital districts with taxing authority).

### Local Provider Participation Funds (LPPF)

- Non-federal share of UC payments
- Non-federal share of DPP payments



## GLOSSARY

### Directed Payment Programs (DPPs)

Programs approved by both federal and state health authorities that provide Medicaid reimbursement rate increases for hospitals contracting with Medicaid managed care organizations. Texas replaced the expiring Delivery System Reform Incentive Payment (DSRIP) program with five new directed payment programs beginning in 2021. These payments help mitigate the underpayment of inpatient and outpatient Medicaid reimbursement rates.

Implementation of three new DPPs that pay hospitals – CHIRP, TIPPS, and RAPPs – began in April 2022, after a seven-month delay in securing DPP approval. The Centers for Medicare & Medicaid Services (CMS) previously withheld approval due to a dispute over Texas' local provider participation funds, which finance the non-federal share of payments. During the delay, hospitals lost more than \$7 million per day in reimbursement for Medicaid patient care.

In approving the programs, CMS reserved authority to disallow payment or withhold future approvals if it finds Texas' method of finance to be impermissible.

### Intergovernmental Transfer Payments (IGT)

A method of finance, **using local property tax revenue**, to draw down the non-federal share of Medicaid supplemental payments – DSH, UC and DSRIP payments – as well as enhanced Medicaid reimbursement through the DPPs.

Hospital districts with taxing authority use local property tax revenue to fund the IGT payment to the state Medicaid agency, which it uses to draw down federal matching Medicaid funds.

### Local Provider Participation Funds (LPPF)

A method of finance, **calculated based on hospital net patient revenue and collected regionally**, to draw down the non-federal share of Medicaid supplemental payments as well as increased Medicaid reimbursement through the directed payment programs.

As of April 1, 2022, 28 jurisdictions (cities or counties) have legislative authority to operate an LPPF.