Key Hospital Budget Issues

TEXAS HOSPITAL ASSOCIATION

Provider Rate Cuts

- Most Texas hospitals are paid less than 60 percent of the cost of inpatient services. A portion of this shortfall is offset through receipt of approximately $1.5 billion annually in DSH and $2.5 billion annually in federal Upper Payment Limit funds. Texas public hospitals put up the state match for the DSH and UPL programs. The state's share of the UPL program is being financed by intergovernmental transfers from local hospital districts and counties.
- Hospitals already have been subjected to a 2 percent rate reduction in the current biennium resulting in an approximate $63 million reduction in reimbursement. Combined with the proposed budget, this results in a 12 percent rate cut for hospitals.
- Hospitals recognize the need to be a proactive part of the discussion about addressing the state's budget challenges but significant rate reductions will result in:
  - A significant loss of federal funding.
  - Additional cost-shifting to local governments and their taxpayers and the business community through higher commercial insurance rates.
  - Fewer doctors and medical homes in the Medicaid system, leaving no place for patients to go but to the ER, the most expensive place to deliver care.
- Hospitals support more cost-effective care management and delivery through payment reforms such as pay-for-performance/quality and shared-savings initiatives as long as they are consistent with other federal and private market initiatives, are based on clinically sound and evidence-based protocols, and provide appropriate regulatory relief (e.g., anti-trust, fee-splitting, gain sharing, etc.).
- More than $100 million per year in proposed cuts to mental health community and crisis services and to state mental hospitals will have a severe negative impact on hospital emergency rooms. With nowhere else to go, patients with mental health needs will turn to hospital emergency departments, where costs are 10 to 25 times higher than a physician office or clinic visit. Hospital emergency rooms are not staffed or equipped to appropriately meet the needs of this population. This practice also reduces ER access for those who truly need emergency health care services, which could lead to higher mortality.

Medicaid Managed Care Expansion – Potential Negative Impact on UPL Program

- The federal government provides federal supplemental Upper Payment Limit funds to mitigate the difference between state Medicaid reimbursement levels and what Medicare reasonably would pay for the same services. Local hospital districts and county governments make intergovernmental transfers of local taxes to the state which uses them to draw down federal matching dollars. The UPL program provides some $2.5 billion annually in payments to hospitals to help offset the Medicaid shortfall.
- The filed budgets anticipated an expansion of Medicaid managed care throughout Texas. Depending on how this is accomplished, federal UPL funds may be jeopardized.
- Federal law allows UPL supplemental payments *only* for patients in Medicaid fee-for-service or PCCM clients. Transitioning to a fully capitated HMO model will make these Medicaid patients ineligible for inclusion in the calculation of UPL payments, which undermines the ability of local hospital districts to help fund the state's Medicaid program.
- THHSC estimates that expanding managed care statewide would increase revenue from premium taxes and improve management of care (which could reduce use of hospital services), resulting in savings to the state of more than $400 million over the biennium.
- **If Medicaid managed care is implemented as proposed, Texas hospitals potentially will lose more than $2 billion in UPL funds over the biennium.**
- Reducing the ability of hospitals to make up a portion of their Medicaid losses through the UPL program will result in cost-shifting to local taxpayers and other payers, and could result in reductions in services and job loss.
- Texas hospitals are working with THHSC to explore options for building the UPL payments into the capitation rate paid to HMOs. This new arrangement is likely to undergo enhanced scrutiny by the federal Centers for Medicare & Medicaid Services and may not be approved. In addition, the state would need to require that HMOs pass the increased capitation amount directly to hospitals and penalize those HMOs that do not pass through all the monies.

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- Texas hospitals agree that health care services should be better managed, which is the job of the HMO or PCCM. Texas hospitals will continue to work with THHSC on options that could have UPL dollars "flow through" the Medicaid HMOs directly to hospitals. However, if this option cannot be achieved with safeguards, such as THHSC having authority to monitor the flow of money from HMOs to hospitals, **Medicaid managed care expansion should continue but the hospital payment should not be included in the capitated rate paid to the HMO. This approach meets the state's goals of better care management and reduction in utilization of services while preserving critical federal UPL funds for hospitals.**

Driver Responsibility Program – Trauma Funding

- The **Driver Responsibility Program (DRP)** was created in 2003 to punish drivers who are repeat speeders and drive under the influence of alcohol and drugs, as well as those who drive without a license or insurance. More often than not, speeding and drunk driving send people – whether the driver or his victim – to a trauma center. Without the trauma safety net, Texas' mortality rate would be significantly higher. **Since 2003, nearly 70 additional hospitals have become part of the Texas trauma system**.
- The DRP collects, on average, $125 million per year, and because the money has never been fully appropriated, the account is projected to have a more than **$330 million balance** at the end of FY 2011.
- Both the Senate and House base budgets appropriate $57.7 million per year for the 2012-13 fiscal years. Designated trauma hospitals have reported **more than $225 million in uncompensated trauma care** for FY 2009. The proposed appropriation increases the already wide gap between reported uncompensated trauma care and funding provided, and will result in a greater cost shift to the local taxpayer.
- Texas hospitals support using the money in the Designated Trauma Facilities and Emergency Medical Services Account **for its intended purpose** – to fund uncompensated trauma care.
- Hospitals also support using the unappropriated funds to create **new trauma and emergency medicine graduate medical education (GME) slots** at teaching hospitals and their partner institutions, which would result in a return of additional federal funds. Currently, Texas medical schools are educating physicians who are forced to leave Texas for residency training because **too few residency slots exist.**

Addressing the Critical Nursing Shortage

- For the current biennium, the Legislature appropriated **$49.7 million to the Professional Nursing Shortage Reduction Fund.** This allowed every nursing school in Texas to increase its enrollment and improve graduation rates to produce more Texas nurses. The fund holds schools accountable by giving **up-front funding to schools with a graduation rate of 70 percent or higher**. Other schools apply for their funding based on a plan to produce more graduates, with strong oversight by the Texas Higher Education Coordinating Board. **The Senate has reduced this appropriation to $31.7 million for 2012-13, while the House zeroed out the funding.**
- **Texas still has a severe nursing shortage and nursing schools are still turning away thousands of qualified applicants**. The Texas population is growing twice as fast as the rest of the nation and the population is aging. Despite what some are saying, Texas still needs nurses and the demand will only increase. The current economic downturn has led to some nurses remaining in the workforce longer and has attracted some nurses out of retirement. However, as the economy recovers, these nurses will retire, leave the workforce or return to part-time employment. In 2009, the median age of RNs was 47. The Texas Center for Nursing Workforce Studies projects that Texas **could lose more than 40 percent of its working nurses to retirement** in the next 10 years.
- **Using taxpayer money to expand nursing education is a sound investment.** Nurses make a good wage, and most nursing jobs provide health insurance and retirement benefits. It makes economic sense for Texas to invest in nursing education so that graduates can fill the available jobs in our communities. Any major cuts to the nursing fund will result in losing the gains we have made in producing more Texas nurses.

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January 25, 2011