TEACHING HOSPITALS of TEXAS

THOT MEMBERS

AUSTIN
Central Health
Ascension Texas Ministry Seton

CORPUS CHRISTI
CHRISTUS Spohn Health System
Nueces County Hospital District

DALLAS
Children's Health System of Texas
Parkland Health & Hospital System
The University of Texas Southwestern Medical Center

EL PASO
University Medical Center of El Paso

FORT WORTH
JPS Health Network

GALVESTON
The University of Texas Medical Branch

HOUSTON
Harris Health System
The University of Texas MD Anderson Cancer Center

LUBBOCK
UMC Health System of Lubbock

MIDLAND
Midland Memorial Hospital

ODESSA
Medical Center Health System

SAN ANTONIO
University Health System

TYLER
UT Health Northeast

GME Affiliate

RIO GRANDE VALLEY - EDINBURG
Doctors Hospital at Renaissance

Written Comments to Senate Finance Committee

March 14, 2017

RE: Senate Bill 2

Good morning, Chair Nelson and Members of the Committee.

I am writing on behalf of the Teaching Hospitals of Texas to highlight the important and possibly unintended negative effects SB 2 would have on essential health services in Texas, on funding that today offsets General Revenue (GR) costs in Medicaid, and on the health of all Texans.

Texas' hospital districts are supported with taxes, typically property taxes, at levels authorized by locally elected officials. These funds do more than provide services solely within their communities. Today, the largest six hospital districts in Texas provide the majority of funding called Intergovernmental Transfers (IGT) that:

- Represent over one of every four dollars used to fund Medicaid hospital payments to all Texas hospitals[i] including the bulk of Texas' 1115 waiver program.
- Help offset losses from unfunded or underfunded Graduate Medical Education costs for residencies that help keep Texas' medical school investments and graduates in Texas.
- Help offset ongoing unfunded costs that support Texas' trauma system.
- Support cost-effective outpatient care as well as inpatient care to uninsured Texans.
- Help support unfunded Medicaid costs of care; resulting from Medicaid payment rates significantly less than the costs of providing Medicaid services.

Proposed state changes to local property taxes will add pressure to and risk for the system that now provides support statewide for critical essential health services, and that also offsets GR costs within the Medicaid program.

Essential health services and a share of Medicaid payments statewide are funded from local property taxes; in particular from the six largest urban hospital districts. These health services and related funding from just the six

largest hospital districts include:

Funding and health services within our communities including:

Medicaid services and over $346 million in unpaid Medicaid hospital base payment costs; [ii]

Care for uninsured Texans including over $1.5 billion in costs; [iii] and

Cost-effective outpatient care including nearly $401 million in unpaid outpatient costs (e.g., for uninsured outpatient visits).[iv]

Support for Graduate Medical Education including supporting:

Texas' Graduate Medical Education; which is underfunded at the national level, leaving our GME infrastructure underfunded and at risk. The state's grant programs for new GME positions are helping. Our existing GME residency positions and infrastructure also need help. Over $400 million in Texas GME costs are unfunded and offset in part by hospital district taxes. For THOT hospitals, unfunded GME costs are estimated to be over $125 million just for the unfunded Medicaid share of Graduate Medical Education costs.[v] Property taxes help shore up, however unsustainably, the bulk of the GME positions in Texas today.

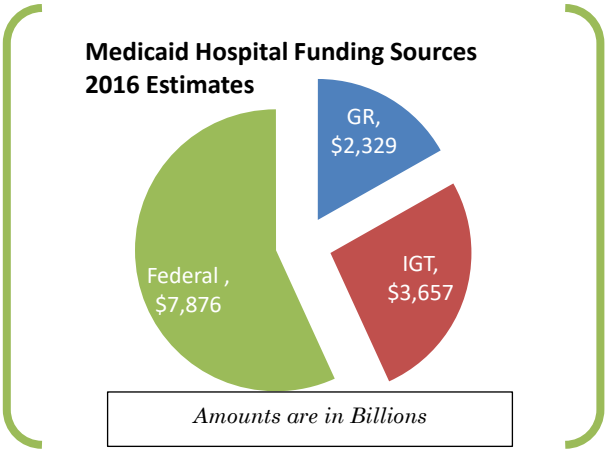
Support for unfunded trauma care costs:

Lifesaving trauma services are supported with the critical Medicaid add on. Even with that current funding, about $100 million in unfunded trauma costs continue. THOT members provide nearly half (47 percent) of the unfunded Trauma care in Texas or about $50 million dollars in unfunded trauma costs per year. Support for unfunded costs comes in part from hospital districts and local property taxes for this critical but expensive infrastructure, to create a response for our first responders, travelers, and each of us who may unexpectedly need a trauma system to respond.

Payments for Texas' Medicaid Hospital Program: Federal Funding, IGT and then GR, in that order, fund the Texas Medicaid Hospital program.

The Medicaid program does not pay hospitals the full costs of the services those Medicaid hospitals provide. A Texas study provided by HHSC to the federal Centers for Medicare and Medicaid Services (CMS) showed that Medicaid base hospital rates (payments for hospital claims), on average pay for only 68.8% of the costs (not charges) of those services. For the biggest six hospital districts, the percent of costs paid is much lower: barely half of the costs of those services or 51.2% of the costs of care.[vi]

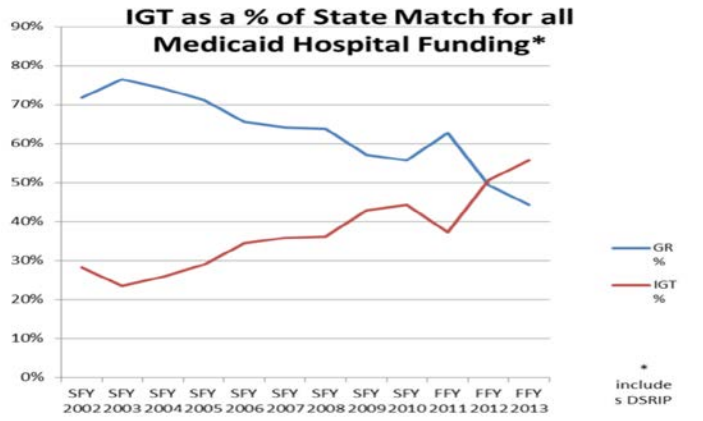
As a result of low Medicaid program rates, supplemental programs have developed and grown, to help make up some of the difference between costs and Medicaid payments. For the most part, supplemental payments are funded not with GR, but with IGTs. These IGTs serve as the state match to access federal funding for supplemental programs like the Disproportionate Share Hospital (DSH) program and the state's 1115 Transformation waiver program Uncompensated Care funding. The lion's share of the IGTs are from the largest six urban hospital districts.



According to HHSC in its 2016 Consolidated Budget Report, the source of funding for Medicaid hospital payments including base payments and supplemental payments is: Federal Funding at 56.8%; GR at 16.8% and IGT at 26.38%.[vii] According to HHSC, the non-federal share of the supplemental programs is funded with IGT primarily from public hospital districts. Within the Medicaid program, IGT from property-tax funded hospital districts makes possible a larger share of Medicaid hospital payments than does GR.

Over time, IGT support as a share of Medicaid hospital funding has increased as GR contributions as a share have gone down. The blue line in the chart below shows GR declining as a percentage of the state's Medicaid hospital payment match; while the red line shows IGT increasing as a percentage of the state match for Medicaid hospital funding.

Hospital District property taxes are a critical part of Texas' Health Care Services and the Medicaid Financing System.



Hospital District property taxes pay for health care in Texas communities; support and make possible our existing GME programs that help grow our physician workforce and retain our medical school investment; help support trauma centers and the care any of us and our first responders could need at any time; and pay for over a quarter of the Medicaid funding going to Texas hospitals as a whole. SB 2 will put additional pressure in particular for hospital districts, on funding that today supports essential services across Texas.

We ask for your consideration based on the key and essential health care services today supported by our hospital districts with these funds.

Thank you for your work, and please let me know if we can provide additional information.

Sincerely,

Maureen Milligan
President and CEO
Teaching Hospitals of Texas
512.476.1497

[i] Source: HHSC's Consolidated Budget 2018- 2019. https://hhs.texas.gov/sites/hhs/files/documents/about-hhs/budget-planning/consolidatedbudgetrequest2018-2019.pdf
pp. 84 & 85. GR and Federal funding from the base rates were calculated to provide IGT, GR and Federal funds for all Medicaid hospital payments referenced in this section.

[ii] Source: 2016 DY 5 UC payment data from HHSC. This citation is based on Medicaid shortfall for the six large urban hospitals. Brackenridge costs are includes for Central Health's Hospital District costs.

[iii] Source: same source data with UC Schedule 3 HSL.

[iv] Same source: Non-HSL UC.

[v] Estimated GME costs are $528.5 million using Medicare cost methodologies (which under-trend actual costs). About 21% of this amount is funded by Medicare. Medicaid's share for all teaching hospitals would be $173 million for all Texas teaching hospitals in 2018; and about $126 million in 2018 just for THOT members.

[vi] HMA's Evaluation of Uncompensated Care and Medicaid Payments in Texas Hospitals and the Role of Texas' Uncompensated Care Pool; August 26, 2016; page 54.

[vii] https://hhs.texas.gov/sites/hhs/files/documents/about-hhs/budget-planning/consolidatedbudgetrequest2018-2019.pdf
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