



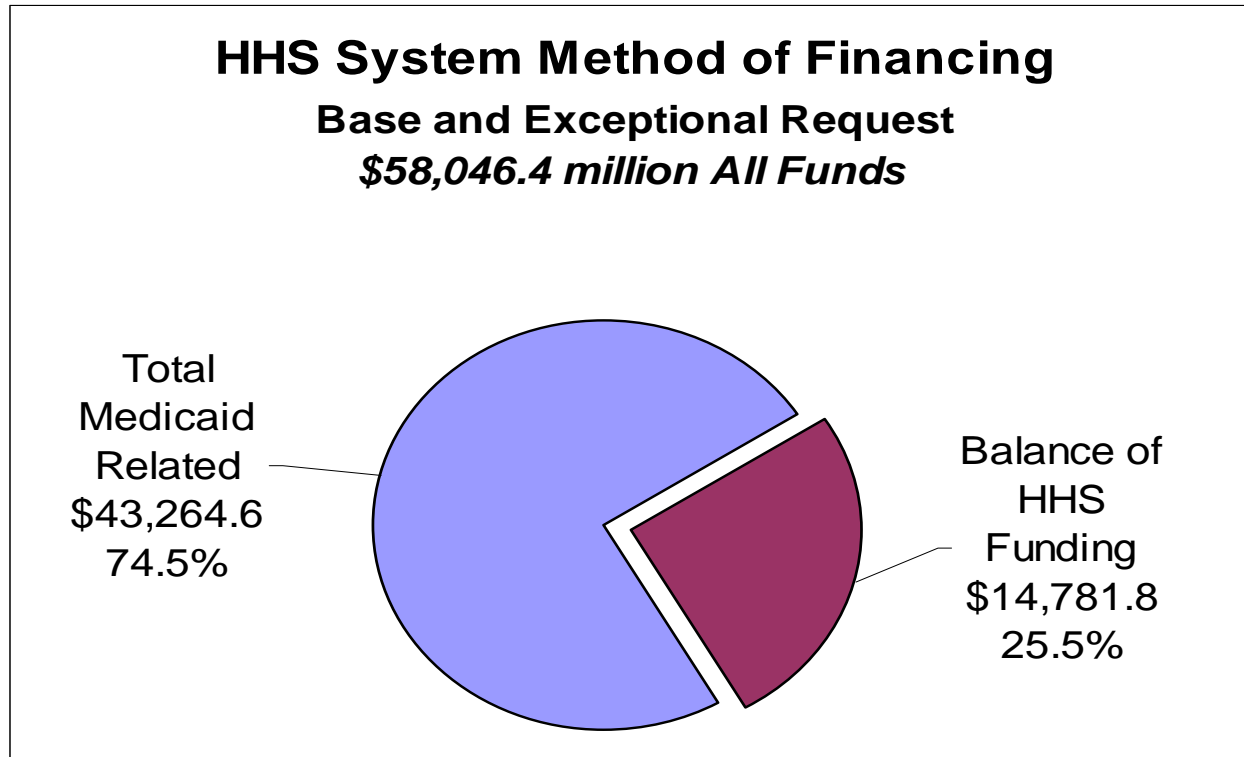
# Hospital Financing

---

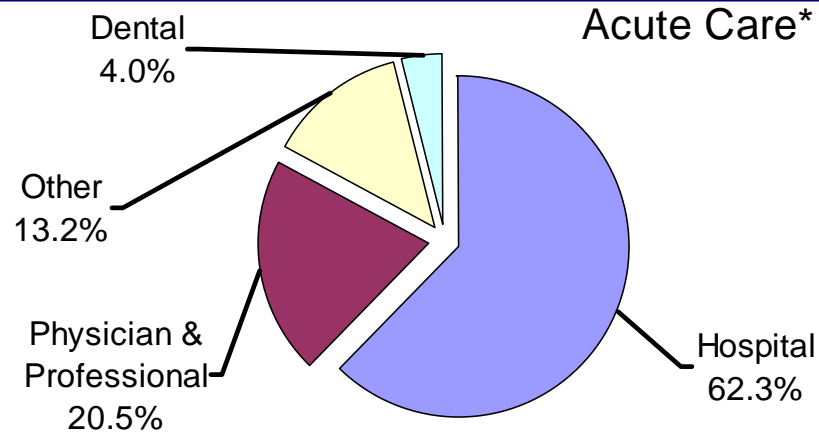
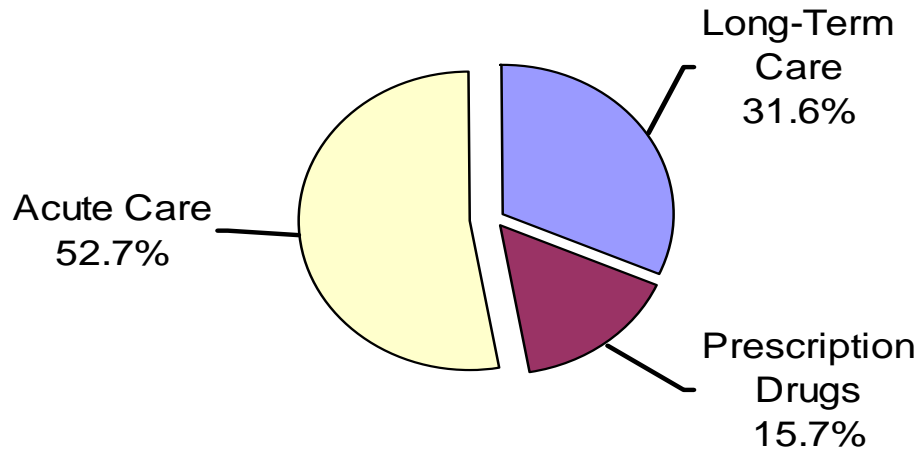
Presentation to the  
Texas Public Policy Foundation  
5th Annual Policy Orientation for the Texas Legislation  
*February 8, 2007*

# HHS System Overview

Medicaid represents approximately 75% of HHS Funding.

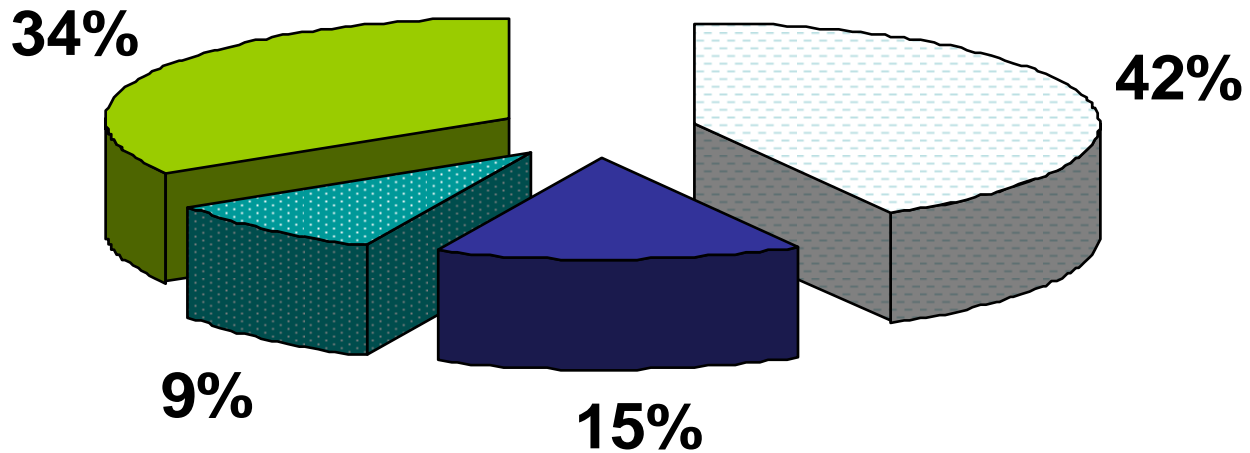


## Texas Medicaid Spending by Major Function, FY 2005



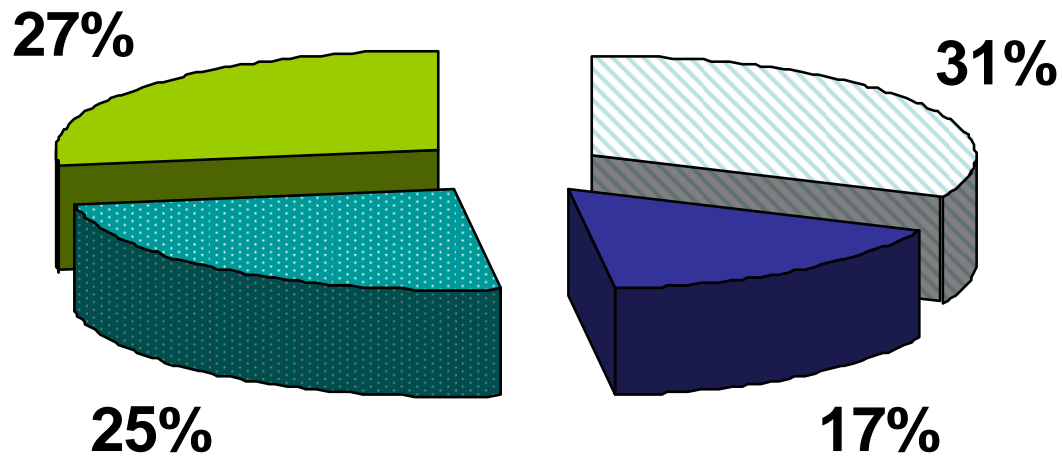
\*Includes UPL and DSH payments to the hospitals totaling \$903 million and \$1,487 million, respectively.


## All Hospitals: Payer Mix as Percent of 2005 Total Gross Revenue



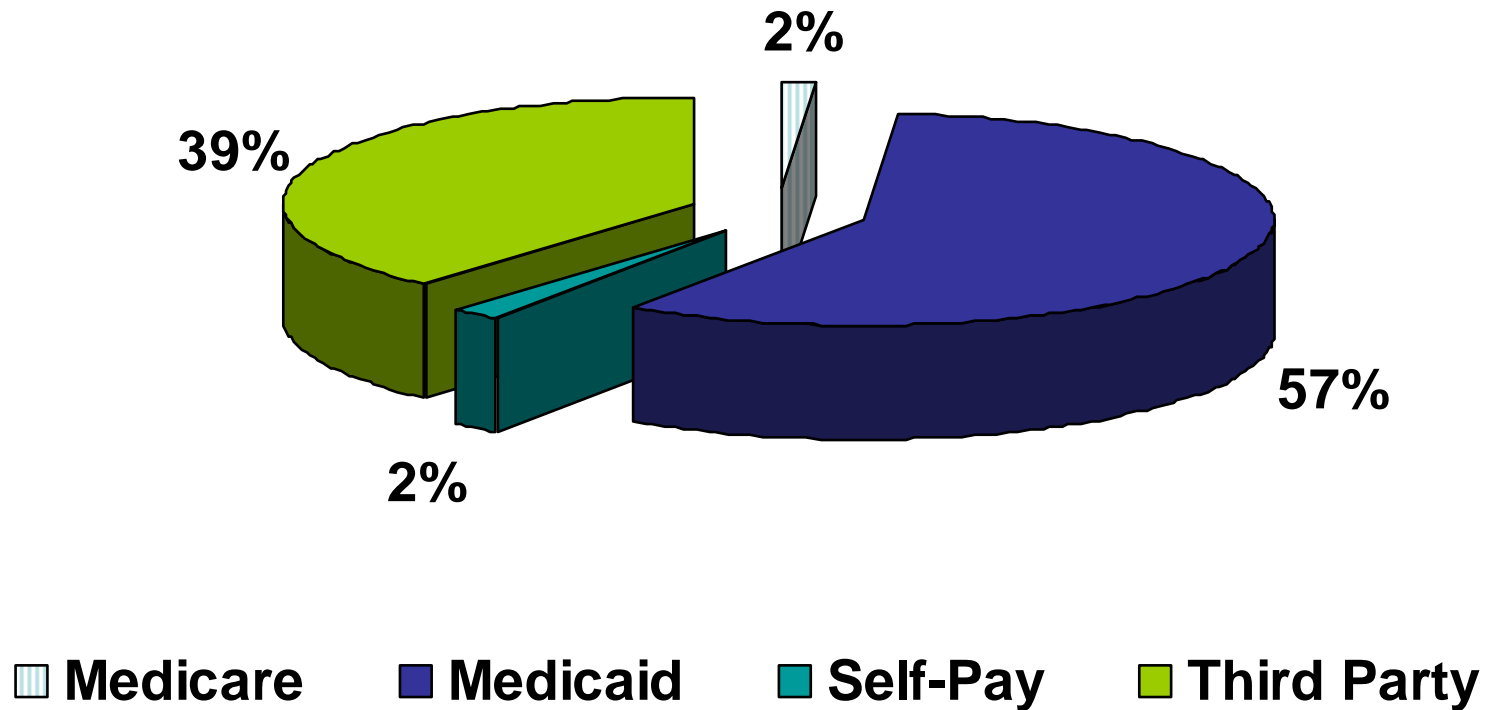
 Medicare     Medicaid     Self-Pay     Third Party

## Public Hospitals: Payer Mix as Percent of 2005 Total Gross Revenue

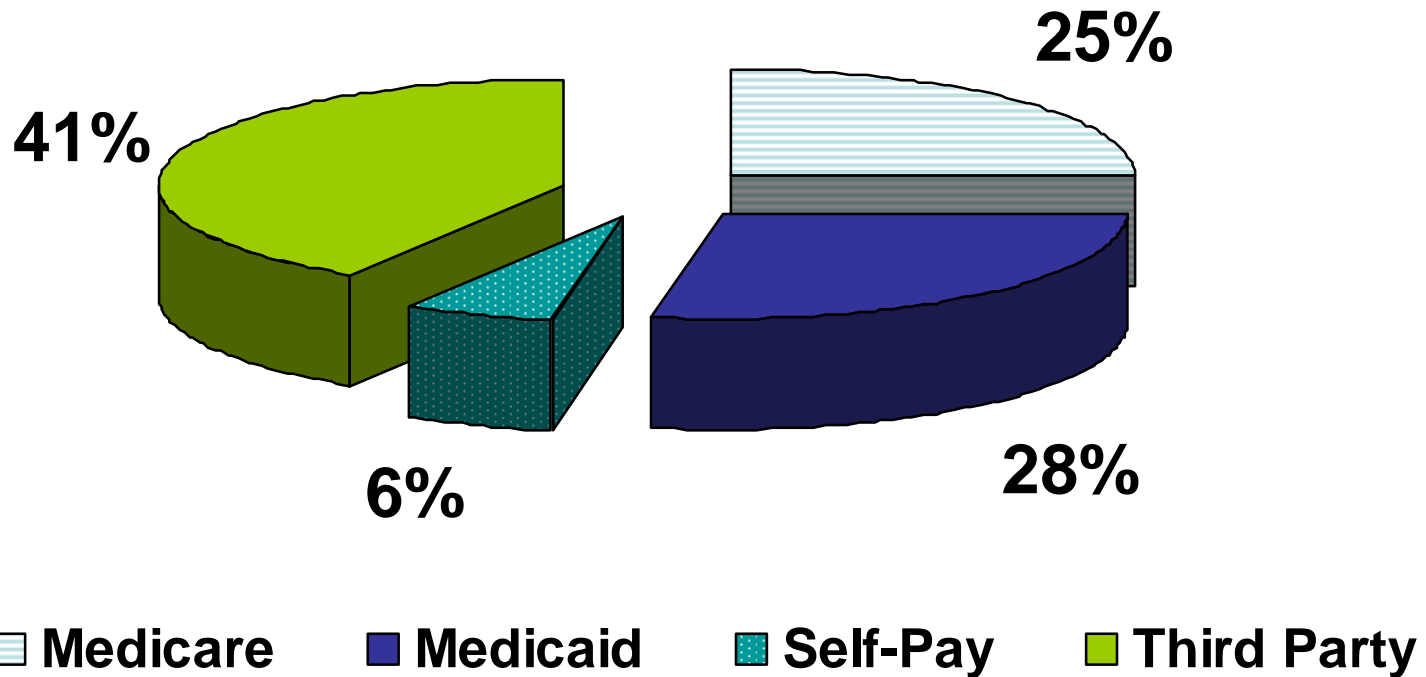


 Medicare     Medicaid     Self-Pay     Third Party

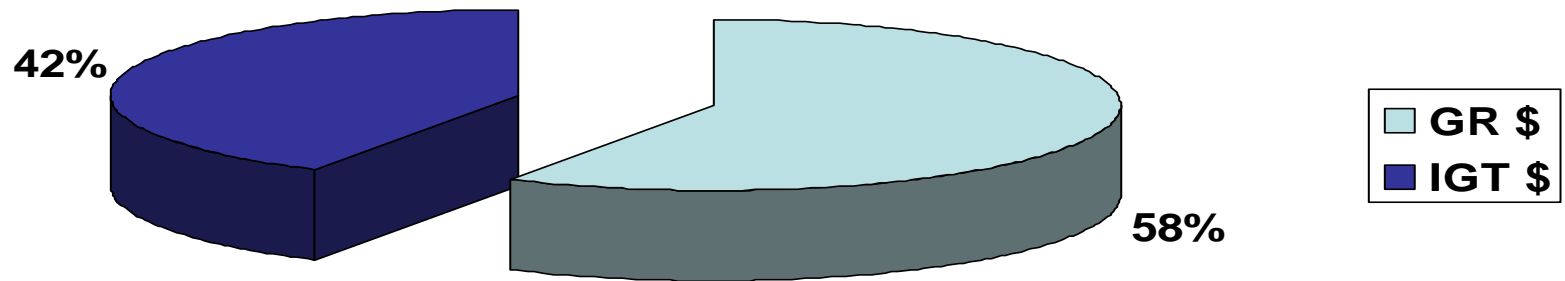
## Children's Hospitals: Payer Mix as Percent of 2005 Total Gross Revenue



## 9 Transferring Hospitals: Payer Mix as Percent of 2005 Total Gross Revenue



## IGT Funding as Percent of Total State Acute Care Medicaid Match 2005



Notes:

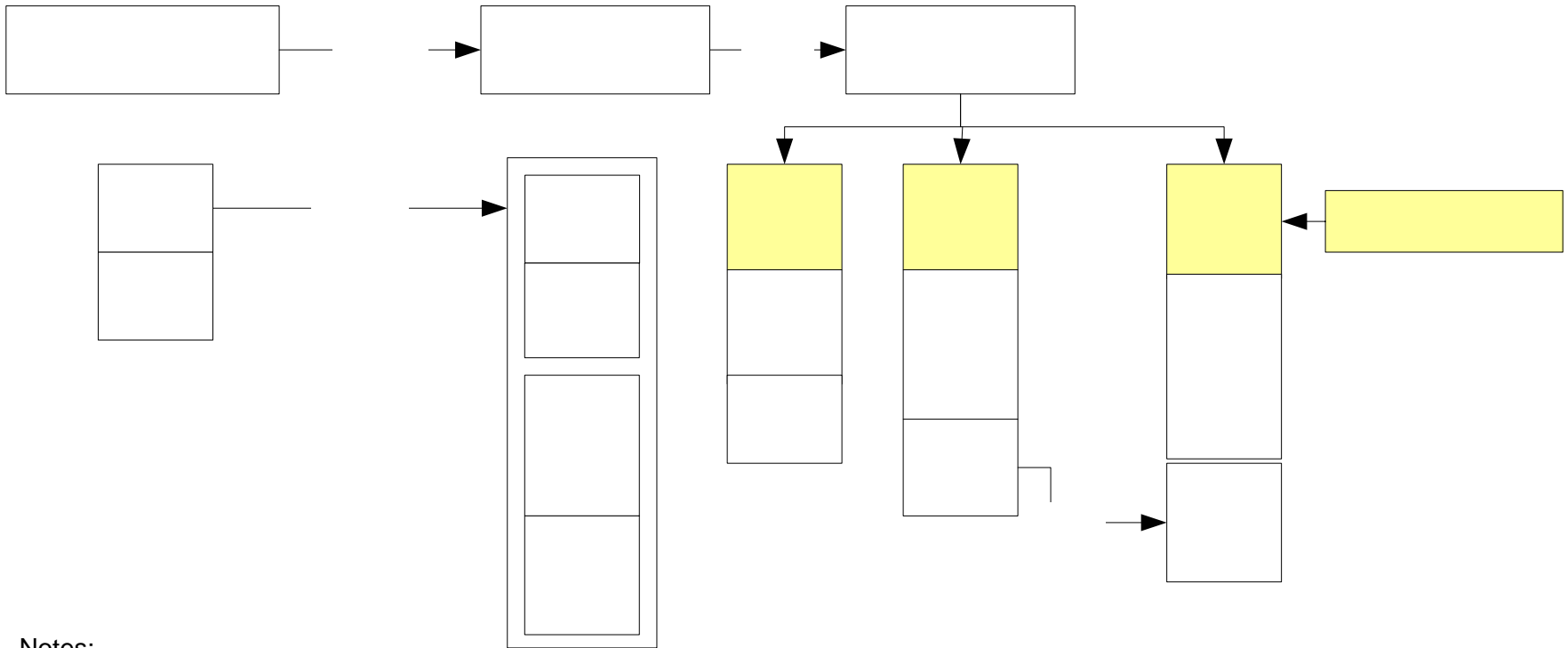
GR = \$1,316 million

IGTs from DSH = \$582.6 million

IGTs from UPL = \$354 million

Data from 2005

## Flowchart Showing Interrelationships Between Three Major Components of Medicaid Hospital Acute Care Payment Methodologies



**Notes:**

UPL data is 2007 estimated

Private UPL class is estimate based on retroactivity

IGT comes from governmental entities, thus the \$235 for private UPL is paid by Public Hospitals and is additive (\$300 + \$235)

Claims data from 2005

DSH data from 2006

**DRG/Outpatient**

**Hospital**

## Three Major Components of Medicaid Hospital Funding

- Claims Payment Program (DRGs)
  - Hospital payment per claim = *Standard Dollar Amount (SDA) x Patient DRG*
- Disproportionate Share Hospitals (DSH)
  - Medicaid-Based Allocation = *Hospital Medicaid Days / Total Medicaid Days for all Hospitals x DSH Funds Available*
  - Low Income-Based Allocation = *Hospital Low Income Days / Total Low Income Days for All Hospitals x DSH Funds Available*
- Upper Payment Limit (UPL)
  - UPL supplemental payments represent difference between current Medicaid reimbursement and what Medicare would reasonably pay.
    - UPL Payment cannot be greater than the lesser of:
      - *Hospital Specific Limit – Hospital DSH Supplemental Payment, OR*
      - *Hospital's Medicaid Charges – Hospital's Medicaid Payments*
    - For Hospitals Not Participating in DSH, UPL Payment =
      - *Hospital's Medicaid Charges – Hospital's Medicaid Payments*

## **DRG-DSH-UPL Issues**

- **Presence of Medicaid Shortfall**
  - Medicaid shortfall is amount that DRG “underpays” Medicaid hospitals, it is estimated at \$440 million for 2006. There is an outpatient shortfall and it is estimated at \$455 million for 2006.
- **Presence of Shortfall (both inpatient and outpatient) means much of DSH payments to hospitals reimburses hospitals for Medicaid claim costs (which were not paid in the DRG claims payment program), and, as such, is not available for uncompensated care reimbursement.**
- **Use of IGT for State share in DSH and UPL supplemental payment programs.**
  - Of the approximately \$1.2 billion in state match for DSH/UPL funding, approximately \$1 billion comes from non GR IGTs.