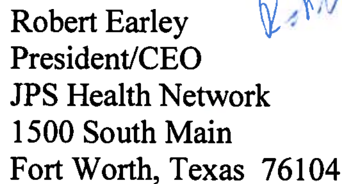
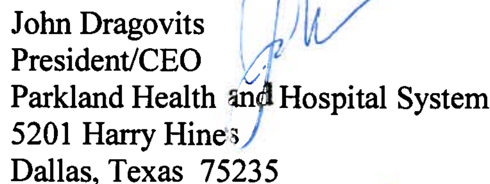
TEXAS HEALTH AND HUMAN SERVICES COMMISSION

THOMAS M. SUEHS
EXECUTIVE COMMISSIONER

June 13, 2012

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John Dragovits
President/CEO
Parkland Health and Hospital System
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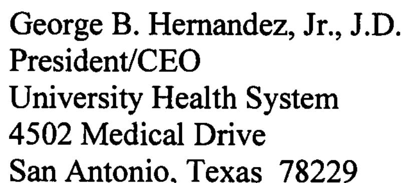
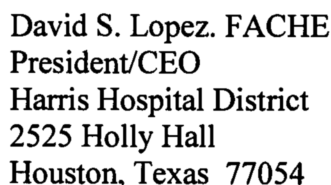

George B. Hernandez, Jr., J.D.
President/CEO
University Health System
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San Antonio, Texas 78229

David S. Lopez. FACHE
President/CEO
Harris Hospital District
2525 Holly Hall
Houston, Texas 77054

Dear Mr. Earley, Mr. Hernandez, Mr. Dragovits, and Mr. Lopez:

Per our conservation yesterday, the following is a summary of the agreement we reached concerning the funding of Disproportionate Share Hospital (DSH) payments for fiscal year 2012:

1. For Fiscal Year 2012, the transferring public hospitals will increase the amount of intergovernmental transfers (IGTs) from the "limited amount" of $425 million (the amount offered in the transferring hospitals' original proposal) to a revised total of $502 million. The FY 2011 amount of IGTs from the transferring hospitals was $488 million.

2. This revised level of IGTs represents:

   a. Maintaining the FY 2012 dollar amount of IGT (Intergovernmental Transfer) amount made by urban public hospitals behalf of urban private hospitals at the level made in FY 2011— i.e., **$174.2 million**.

      - This adds **$39 million IGT** from the public hospitals compared to the level of IGT that has been offered to date for FY 12.
      - Total **payments** to urban private hospitals will increase from $371.2 million (the amount that would be obtained under the transferring hospitals' original proposal) to **$417 million**. This amount is a reduction of 5.6% from FY 11 payments of $441.8

million, but this amount is entirely attributable to a reduction in the federal matching percentage, which impact all providers.

b. Providing an equivalent amount of additional IGT funding (**$38 million**) for the public hospitals, thus reducing the amount of unclaimed federal DSH funds to about $169 million. The federal amount of DSH in FY 12 is $103 million higher than in FY 12.

4. The revised proposal would build on the "pool" funding concept by adding pools for public urban hospitals and private urban hospitals to the pools included in the currently proposed amendments to the DSH reimbursement rules, which included pools for children's hospitals and rural hospitals.

   a. The children's hospital pool would be **$100 million**, compared to $75 million in FY 11 DSH payments.

      - Some of the increase is due to reduction in FY 12 of the state funded children's UPL program. Some children's hospitals also have made agreements and will receive UC (uncompensated care) and/or DSRIP payments in conjunction with other governmental entities who are providing IGT as match.

      - The draft rule would have provided $125 million in the children's pool.

   b. In FY 11, the IGT from public hospitals on behalf of children's DSH was $39.5 million. For FY 12 the transferring hospitals proposal would provide $41.8 million IGT.

   c. The rural hospital pool would be $71.5 million, the same as FY 11 DSH payments, and the same as in the proposed rule. The IGT from public hospitals would be $30 million compared to $28 million in FY 11.

5. The revised IGT agreement assumes an appropriate allocation of approximately $77 million to transferring hospitals in DSRIP under the 1115 Transformation Waiver.

Other Items:

The pool methodology would be implemented through 4th quarter "transition" payments to hospitals that would be calculated to ensure that total payments for FY12 equal the amounts described above. Thus, the IGTs would be approximately $80 million larger in the 4th quarter than for each of the first 3 quarters. Third quarter payments by the end of June would be

calculated under the existing methodology, with various adjustments that have been determined through the individual hospital appeal process.

Rural Public Hospitals

The agreement contemplates that rural public hospitals will become responsible for making IGTs beginning in FY 2013 to the degree such hospitals have allowable sources of public funds available.

Low Income Days

The agreement assumes that the Low Income (LI) day methodology contained in the draft rule is implemented effective Q4. (This condition will not apply to the children's hospitals).

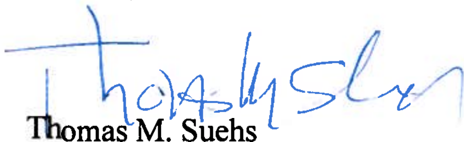
Additional Funding Pools

The agreement assumes that the proposed rules be amended to establish four pools of funds in FY 2013: public hospitals, urban private, children's and rural hospitals. The total amount in each pool will equal the equivalent amount in FY12 adjusted for the change in the federal DSH allocation.

Transferring Hospitals' Future Obligations

The agreement assumes that, effective FY 2013, public hospitals will not be responsible for making IGTs to fund urban private and rural hospital DSH payments. (No decision has been made regarding future funding of children's hospital payments).

Sincerely



Thomas M. Suehs