



**Disproportionate-Share Hospital (DSH),  
Upper Payment Limit (UPL), and  
Medicaid Graduate Medical Education (GME)  
as they relate to  
State Owned Teaching Hospitals**

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*August 28, 2008*



# Overview of Major HHS Funding Provided to State Teaching Hospitals

## Major Funding Provided through Health and Human Services (HHS) Agencies to State Teaching Hospitals\*

| Medicaid Payments  | FY 2007 Payments |
|--|------------------|
| Regular Medicaid Payments                                | \$147,505,084    |
| Disproportionate Share Hospital Program (DSH)            | \$180,702,372    |
| Upper Payment Limit Hospital Program (UPL)               | \$144,558,569    |
| Graduate Medical Education (GME)                         | \$ 0.00          |
| <b>Additional HHS Major Funding Sources for UTMB</b>     |                  |
| Indigent Health Care Reimbursement                       | \$10,000,000     |
| Women and Children's Health and Family Planning Services | \$6,000,000      |
| WIC  | \$3,000,000      |
| Texas Poison Control Network                             | \$1,000,000      |
| Trauma   | \$668,833        |
| <b>Additional HHS Major Funding Sources for UTHSCT</b>   |                  |
| Infectious Disease Control                               | \$3,500,000      |

\*Payments to The University of Texas Medical Branch at Galveston (UTMB), The University of Texas M.D. Anderson Cancer Center, The University of Texas Health Science Center at Tyler (UTHSCT)



# Fiscal Impact to Changes in Fiscal Years 2008 and 2009

## Major Funding Changes this Biennium:

- HHSC shifted state owned teaching hospitals to a cost based TEFRA reimbursement system
- State teaching hospitals and HHSC are jointly proposing a claim for Medicaid Graduate Medical Education (GME) retroactively for fiscal year 2008 and 2009

|   | <b>FY 2008<br/>Estimated<br/>Impact</b> | <b>FY 2009<br/>Estimated<br/>Impact</b> | <b>Increased<br/>Biennial<br/>Funding<br/>Change</b> |
|---|---|---|--|
| <b>Cost Based Reimbursement Payments</b>                      |   |   |  |
| The University of Texas Medical Branch at Galveston           | \$13,097,156                            | \$10,575,188                            | <b>\$23,672,344</b>                                  |
| The University of Texas M.D. Anderson Cancer Center           | \$1,747,444                             | \$4,260,592                             | <b>\$6,008,036</b>                                   |
| The University of Texas Health Science Center at Tyler        | \$473,646                               | \$1,142,533                             | <b>\$1,616,179</b>                                   |
| <b>Proposed Medicaid Graduate Medical Education Payments*</b> |   |   |  |
| The University of Texas Medical Branch at Galveston           | \$28,513,724                            | \$29,454,677                            | <b>\$57,968,401</b>                                  |
| The University of Texas M.D. Anderson Cancer Center           | \$4,110,365                             | \$4,246,007                             | <b>\$8,356,371</b>                                   |
| The University of Texas Health Science Center at Tyler        | \$632,412                               | \$653,282                               | <b>\$1,285,694</b>                                   |

\*FY 2008 GME payments would begin in FY 2009 with CMS approval of state plan amendment change and requires an Intergovernmental Transfer. Estimated GME reimbursements are based on FY 2007 Medicaid cost report data.



# DSH and UPL Funding Overview

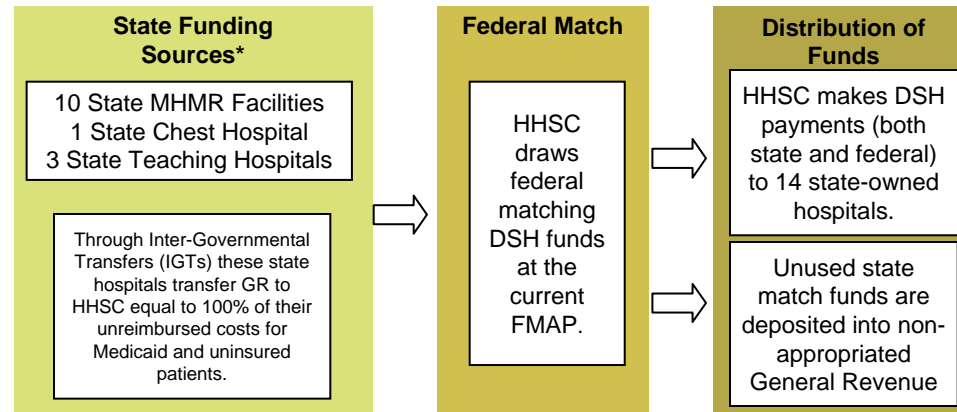
**DSH: Federal and state laws require that state Medicaid programs make special payments to hospitals that serve a disproportionately large number of Medicaid, low-income, and indigent patients.**

- Texas pays approximately \$1.5 billion (all funds) per year in DSH.
  - All hospitals must meet minimum criteria, such as non-emergency obstetrical services and Medicaid inpatient utilization, to receive DSH funds.
  - In FY 2007, DSH payments were made to three state-owned teaching hospitals, one state chest hospital, ten state psychiatric hospitals and approximately 165 non-state hospitals.
  - Federal DSH funding to Texas is capped at approximately \$901 million per federal fiscal year.

**UPL: Federal regulations fund a reasonable estimate of the amount that would be paid for Medicaid services using Medicare payment principles.**

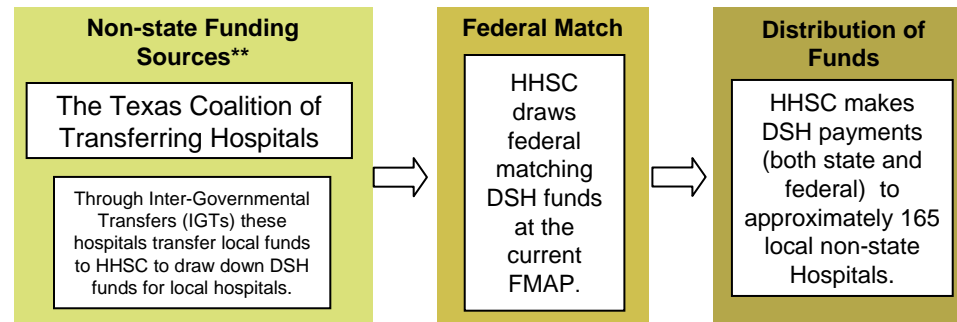
- Texas pays approximately \$1.6 billion (all funds) per year in UPL payments for inpatient and outpatient services to eligible acute care hospitals.
  - In FY 2007, UPL payments were made to approximately 195 hospitals.
  - Over \$900 million of the total payments were paid to 11 of the largest public hospitals in Texas.

## DSH Formula for State Owned Hospitals:



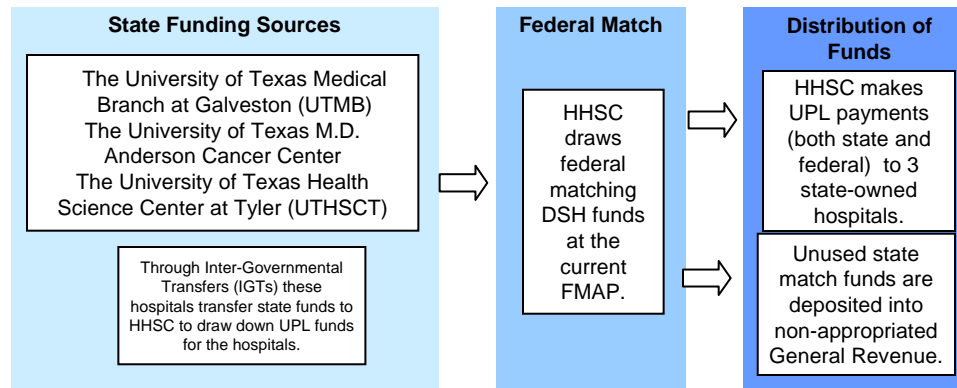
**State Funding Sources:** The University of Texas Medical Branch at Galveston (UTMB), The University of Texas M.D. Anderson Cancer Center, The University of Texas Health Science Center at Tyler (UTHSCT), Texas Center for Infectious Disease (TCID) in San Antonio, Austin State Hospital, Big Spring State Hospital, San Antonio State Hospital, Rio Grande State Psychiatric Center, Harris County Psychiatric Center, El Paso State Psychiatric Center, Terrell State Hospital, Rusk State Hospital, Wichita Falls State Hospital, Vernon State Hospital.

## DSH Formula for Non-State Owned Hospitals:

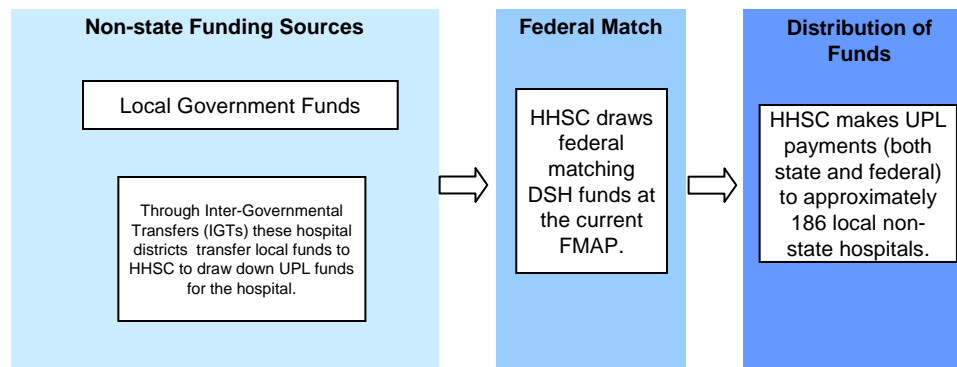


**\*\*Texas Coalition of Transferring Hospitals** includes the hospital districts of Bexar County, Dallas County, Ector County, El Paso, Harris County, Lubbock County, Tarrant County, and Travis County.

## UPL Formula for State Owned Teaching Hospitals:



## UPL Formula for Non-State Owned Hospitals:





# Federal and State DSH and UPL Payments by Major Category

## DSH Payments

| Hospital Category        | FY 2007<br>Payments | FY 2008<br>Estimates |
|--------------------------|---------------------|----------------------|
| State Teaching Hospitals | \$180,702,372       | \$141,391,400        |
| Other State Hospitals    | \$246,254,251       | \$312,637,424        |
| Large Public Hospitals   | \$570,906,969       | \$575,231,676        |
| Children's Hospitals     | \$73,385,177        | \$68,984,121         |
| Urban Hospitals          | \$312,095,422       | \$307,180,527        |
| Rural Hospitals          | \$58,616,976        | \$51,520,641         |
| Totals:                  | \$1,441,961,167     | \$1,456,945,789      |

## UPL Payments

| Hospital Category        | FY 2007<br>Payments | FY 2008<br>Estimates |
|--------------------------|---------------------|----------------------|
| State Teaching Hospitals | \$144,558,569       | \$144,558,569        |
| Other State Hospitals    |                     |                      |
| Large Public Hospitals   | \$900,776,895       | \$938,401,571        |
| Children's Hospitals     | \$31,871,494        | \$31,693,712         |
| Private Hospitals        | \$427,156,110       | \$990,000,000        |
| Rural Hospitals          | \$76,216,946        | \$72,514,760         |
| Totals:                  | \$1,580,580,014     | \$2,177,168,612      |

DSH and UPL programs use different categories for private and urban hospitals.  
UPL payments for physician services are not included.

### **Three state-owned teaching hospitals transfer funds to the Health and Human Services Commission.**

- The University of Texas Medical Branch at Galveston (UTMB)
- The University of Texas M.D. Anderson Cancer Center
- The University of Texas Health Science Center at Tyler (UTHSCT)
- **Through inter-governmental transfers (IGTs), these funds are used as match for federal Medicaid DSH and UPL programs.**
- **These three hospitals are paid the sum of their uninsured costs and non-reimbursed Medicaid costs.**
- **The value of the federal share of DSH funds received by state-owned teaching and psychiatric hospitals goes to non-appropriated general revenue via a general revenue transfer from the state-owned hospitals.**
- **Currently, state-owned teaching hospitals are paid DSH and UPL funds up to their total computed DSH Caps.**





## State-Owned Teaching Hospitals: FY 2007 DSH & UPL Payments

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|  | <b>DSH Payment</b> | <b>UPL Payment</b> |
|--|--------------------|--------------------|
| The University of Texas Medical Branch at Galveston    | \$86,243,656       | 98,579,940         |
| The University of Texas M.D. Anderson Cancer Center    | \$83,994,581       | 39,559,467         |
| The University of Texas Health Science Center at Tyler | \$10,464,135       | 6,419,162          |

- **The state-owned teaching hospitals receive UPL payments limited by their hospital-specific DSH Cap.**
- **DSH Cap = Self-Reported Uninsured Costs + Medicaid Shortfall**

## FY 2007 DSH Cap Computation

| Hospital Category        | Self-Reported<br>Uninsured<br>Costs | Medicaid<br>Shortfall | Hospital<br>DSH Cap    |
|--------------------------|-------------------------------------|-----------------------|------------------------|
| State Teaching Hospitals | \$200,097,726                       | \$45,868,705          | \$245,966,431          |
| Other State Hospitals    | \$301,892,709                       | \$12,682,928          | \$314,575,637          |
| Large Public Hospitals   | \$1,195,917,519                     | \$181,118,597         | \$1,377,036,116        |
| Children's Hospitals     | \$45,180,861                        | \$98,259,186          | \$143,440,047          |
| Urban Hospitals          | \$782,867,009                       | \$300,526,211         | \$1,083,393,220        |
| Rural Hospitals          | \$118,770,756                       | \$18,591,644          | \$137,362,400          |
| <b>Totals:</b>           | <b>\$2,644,726,580</b>              | <b>\$657,047,271</b>  | <b>\$3,301,773,851</b> |

Note: GME costs are included in DSH in both the uninsured and the Medicaid shortfall, since the ratio of cost to charges used is determined prior to the allocation of the GME cost to the separate GME cost report worksheets

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**Medicaid would provide funding for residency training (GME) based on a teaching hospital's share of the total GME costs incurred for all teaching hospitals for Medicaid patients.**

- FY 2005 was the last year HHSC distributed approximately \$51 million (all funds) in Medicaid GME Payments.
- Medicaid GME allowable costs include stipends for residents, salaries and fringe benefits for faculty and administrative staff, and facility overhead.
- An estimated 53 teaching hospitals would receive Medicaid GME payments if appropriated.
- Medicaid GME payments could impact the UPL payments to the eligible teaching hospitals.
- A Medicaid state plan amendment and the Centers for Medicare and Medicaid Services (CMS) approval is required for HHSC to make GME payments.
- The CMS proposed a rule in May 2007 to prohibit federal Medicaid funding for GME. Congress imposed a moratorium on this rule until April 1, 2009.



# HHSC 2010-2011 Legislative Appropriations Request Exceptional Item Request for GME

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| <b>Hospital Category</b> | <b>Teaching Hospital GME Cost</b> |                      |
|--------------------------|-----------------------------------|----------------------|
|                          | <b>FY 2010</b>                    | <b>FY 2011</b>       |
| State Teaching Hospitals | \$17,336,197                      | \$17,908,292         |
| Other State Hospitals    | \$881,005                         | \$910,078            |
| Large Public Hospitals   | \$62,545,054                      | \$64,609,041         |
| Children's Hospitals     | \$14,973,938                      | \$15,468,078         |
| Private Hospitals        | \$20,586,186                      | \$20,644,332         |
| Urban Hospitals          | \$8,661,769                       | \$8,947,607          |
| <b>Totals:</b>           | <b>\$124,984,149</b>              | <b>\$128,487,428</b> |

FY 2010 and 2011 Estimated GME costs are based on the FY2003 Medicare per resident amount and an estimated GR appropriation of approximately \$100 million.



# State Owned Teaching Hospitals: DSH, UPL and GME Combined

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**DSH hospitals have a cap on the amount of supplemental funds (DSH and UPL payments) each hospital can receive.**

## **DSH Cap = Self-Reported Uninsured Costs + Medicaid Shortfall**

**Self-reported uninsured charges** reflect uninsured charges incurred and subtract payments made. HHSC converts charges to costs.  
**Medicaid Shortfall** is the difference between the costs to treat a Medicaid patient and the actual payment from Medicaid.

### **Impacts to UPL Payments:**

**UPL payments to DSH hospitals count toward their individual DSH Caps.**

**Three state-owned teaching hospitals will receive approximately \$145 million in UPL payments in FY 2009 limited by their hospital-specific DSH Cap.**

- The University of Texas Medical Branch at Galveston (UTMB)
- The University of Texas M.D. Anderson Cancer Center
- The University of Texas Health Science Center at Tyler (UTHSCT)

### **Impacts to Medicaid GME Payments:**

**Medicaid GME payments and reported GME costs impact the DSH Cap.**

- Medicaid shortfall is reduced due to GME revenue which directly correlates to the DSH Cap.
- Any Medicaid GME payments to state owned teaching hospitals would lower their DSH Cap which would impact the state funds transferred to non-appropriated General Revenue.