

**SUBJECT:** Implementing true cost reimbursement for rural hospitals under Medicaid

**COMMITTEE:** Human Services — favorable, without amendment

**VOTE:** 7 ayes — Frank, Hinojosa, Clardy, Deshotel, Klick, Meza, Noble  
0 nays  
2 absent — Miller, Rose

**SENATE VOTE:** On final passage, April 17 — 31-0

**WITNESSES:** For — James Janek, Rice Medical Center; Don McBeath, Texas Organization of Rural and Community Hospitals; (*Registered, but did not testify*: Frank McStay, Baylor Scott and White Health; Timothy Ottinger, Catholic Health Initiatives-Texas Division; Anne Dunkelberg, Center for Public Policy Priorities; Amber Hausenfluck, CHRISTUS Health; Christine Yanas, Methodist Healthcare Ministries of South Texas, Inc.; Sara Gonzalez, Texas Hospital Association; John Henderson, Texas Organization of Rural and Community Hospitals)  
  
Against — None  
  
On — (*Registered, but did not testify*: Victoria Grady and Charlie Greenberg, Health and Human Services Commission)

**BACKGROUND:** Concerns have been raised about the financial sustainability of rural hospitals. Financial losses incurred for treatment of Medicaid patients have been identified as one of the threats to the survival of these hospitals, which are the only source of care for many rural Texans.

**DIGEST:** SB 170 would require the executive commissioner of the Health and Human Services Commission (HHSC) to adopt by rule a prospective cost-based reimbursement methodology for the payment of rural hospitals participating in Medicaid.

The methodology would have to ensure that, to the extent allowed by federal law, the hospitals were reimbursed on an individual basis for providing inpatient and general outpatient services to Medicaid recipients using the hospital's most recent cost information concerning the costs incurred for providing such services. The bill would require HHSC to calculate the prospective cost-based reimbursement rates once every two years.

In adopting a reimbursement methodology, HHSC could adopt a methodology that either:

- required a managed care organization to reimburse rural hospitals for services delivered through the Medicaid managed care program using a minimum fee schedule or other method for which federal matching money was available; or
- required HHSC and a managed care organization to share in the total amount of reimbursement paid to rural hospitals.

HHSC also could require that the amount of reimbursement paid to a rural hospital be subject to any applicable adjustments made by the commission for payments to or penalties imposed on the rural hospital that were based on quality-based or performance-based requirements under the Medicaid managed care program.

**Transition to true cost-based reimbursement.** By September 1 of each even-numbered year, HHSC would have to determine the allowable costs incurred by a rural hospital participating in the Medicaid managed care program based on the rural hospital's cost reports submitted to the federal Centers for Medicare and Medicaid Services and any other available information that the commission considered relevant. By September 1, 2020, HHSC would have to make an initial determination of allowable costs incurred by an applicable rural hospital.

Beginning with the fiscal year ending August 31, 2022, HHSC would be required to implement a true cost-based reimbursement methodology for inpatient and general outpatient services provided to Medicaid recipients

at rural hospitals. This methodology would have to provide prospective payments to rural hospitals during a state fiscal year using the reimbursement methodology adopted under the bill's provisions and, to the extent allowed by federal law, provide a cost settlement in the subsequent state fiscal year to provide additional reimbursement as necessary to reimburse the hospitals for true costs incurred in providing services to Medicaid recipients during the previous fiscal year.

If federal law did not permit the use of a true cost-based reimbursement methodology described by the bill, HHSC would have to continue to use the prospective cost-based reimbursement methodology for the payment of rural hospitals for providing inpatient and general outpatient services to Medicaid recipients.

**Implementation.** HHSC would be required to implement a provision of the bill only if the Legislature appropriated money specifically for that purpose. Otherwise HHSC could, but would not be required to, implement the bill's provisions using other available appropriations.

If before implementing any provision of the bill a state agency determined that a waiver or authorization from a federal agency was necessary, the agency affected by the provision would have to request the waiver or authorization and could delay implementing that provision until the waiver or authorization was granted.

The bill would take effect September 1, 2019.