HCA

Hospital Corporation of America

One Park Plaza
Nashville, TN
37203

May 15, 2015

The Honorable Rick Scott
Office of Governor
State of Florida
The Capitol
400 S. Monroe St.
Tallahassee, FL 32399-0001

Dear Governor Scott:

I am writing you on behalf of the 46 HCA Affiliated Hospitals in Florida ("HCA") in response to your letter dated May 8, 2015 regarding the creation of the Commission on Healthcare and Hospital Funding. HCA is supportive of your goal of developing an equitable, sustainable structure of financial support for Florida hospitals that ensures predictability for state budgeting purposes, and serves the taxpayers of this state well.

HCA's 46 affiliated hospitals in Florida comprise the largest hospital safety net system in the state. HCA provides more services to Floridians covered by Medicaid, or who are uninsured, than does any other hospital system in the state. Even with this level of service, our hospitals are achieving high quality of care scores at costs lower than other systems. As examples of the commitment that HCA has made to the state of Florida and its citizens please consider the following:

- In calendar year 2013, HCA ranked first among Florida hospitals for Medicaid and uncompensated inpatient patient care days. HCA provided 21 percent of such patient days, which comprise almost half a million Medicaid and uncompensated patient care days.
- In calendar year 2013, HCA also ranked first among Florida hospitals for Medicaid and uncompensated Emergency Department (ED) visits. Over 22 percent (or 624,000) of all Medicaid and uncompensated ED visits were provided by an HCA hospital.
- HCA also ranked first among Florida hospitals for Medicaid and uncompensated care deliveries: over 18,000 of these babies were delivered at HCA hospitals.

In addition to our commitment to serving all of Florida citizens, HCA provides tremendous financial resources to the local communities that its hospitals serve.

- In calendar year 2013, HCA paid $341 million in income taxes, real estate taxes, other taxes and licensure fees in Florida, approximately 63 percent of the total amount paid by all Florida hospitals.
- HCA also paid $96 million in provider taxes to the Florida Medicaid program, almost 19 percent of the total paid by Florida's hospitals.

No other hospital system in Florida can compare in providing care to Florida's citizens in need or in funding to the local governments and the state of Florida.

As you have correctly observed, the current payment structure for hospitals needs to be revised. It relies too heavily on the Low Income Pool (LIP) and local government funding, and there is uncertainty as to whether federal government approvals will be granted through the Medicaid waiver process. Historically, the LIP program has failed to yield a predictable, equitable allocation methodology to reimburse Florida hospitals for the provision of services to the medically underserved and indigent patients. This unpredictability has impeded Florida's ability to effectively manage and appropriate the budget for Medicaid services.

HCA is supportive of your efforts to obtain a continuation of the LIP program as an interim measure while transitioning to a new hospital payment structure. However, it is important to recognize that LIP is not a long-term solution and often yields inequitable results. For example, while HCA provided over 20 percent of all Medicaid and uncompensated inpatient days and ED visits, HCA only received 3.9 percent of LIP payments in 2014-15, net of intergovernmental transfer (IGT) local contributions. Other hospitals receive substantially more in LIP payments, but provide much less care to Floridians covered by Medicaid or who are uninsured.

The implementation of the Diagnosis Related Group (DRG) payment methodology for Medicaid hospital inpatient services that occurred under your leadership establishes an appropriate framework for ensuring that payments to hospitals for Medicaid payments are fair and equitable. HCA proposes that the Commission consider the following enhancements to the DRG methodology that will provide an equitable increase in Medicaid funding that will serve to off-set much of the loss of LIP funds for charity and uninsured patients:

- An increase in the base rate, which is currently insufficient to fairly compensate hospitals (and that is currently supplemented by the LIP)
- Broad based financing of the state match through an increase in the hospital provider tax, (which would replace the IGT's), to support the increase in the base rate

These suggested revisions to the DRG payment methodology do not require federal waiver approval and are routinely accomplished through the Medicaid state plan amendment process with the Centers for Medicare and Medicaid Services (CMS). There are many reasons that this approach makes sense including:

- Federal regulations allow for the state to pay Medicaid rates up to the level paid for by the Medicare program.
- An increase in the "base rate" could be used to mitigate much of the impact of the loss of the LIP Program, if that were to occur, and provides for a more predictable and equitable payment structure actually based upon the treatment of a patient.
- The DRG methodology is used by Medicare, most state Medicaid programs, and also commercial payers. It provides the appropriate incentives for quality of care, cost efficiency and pays hospitals equitably based upon the resources needed to treat each patient based upon the severity of their diagnosis.
- Increasing the hospital tax rates by one-half percent provides approximately $200 million in revenue, which when matched with federal funds would provide $500 million in increased Medicaid payments. In order to achieve the current level of funding now provided through the LIP, the tax rates would need to increase from the current rate of 1.5 percent to 3 percent for

the inpatient tax and from the current rate of 1 percent to 2.5 percent for the outpatient tax. This is an approach consistent with what Florida has implemented for nursing homes that has proven to be very successful.

This approach ensures that each hospital's payments are directly related to the hospital's provision of care to Medicaid patients. Please note some hospitals which have disproportionately benefited from the LIP program may advocate for adjustments to these base rates for services such as pediatric care, graduate medical education, or other specialized programs. We urge you to avoid dilution of a consistent Medicaid payment rate that ensures equal payments for equal services throughout the state.

We look forward to the opportunity to provide detailed information to the Commission in its important work to develop recommendations to improve the healthcare system in Florida.

Sincerely,

Michael Joseph
President, East Florida Division

Michael Joyce
President, North Florida Division

Peter Marmerstein
President, West Florida Division

Hugh Tappan
President, South Atlantic Division

cc: Diane Moulton