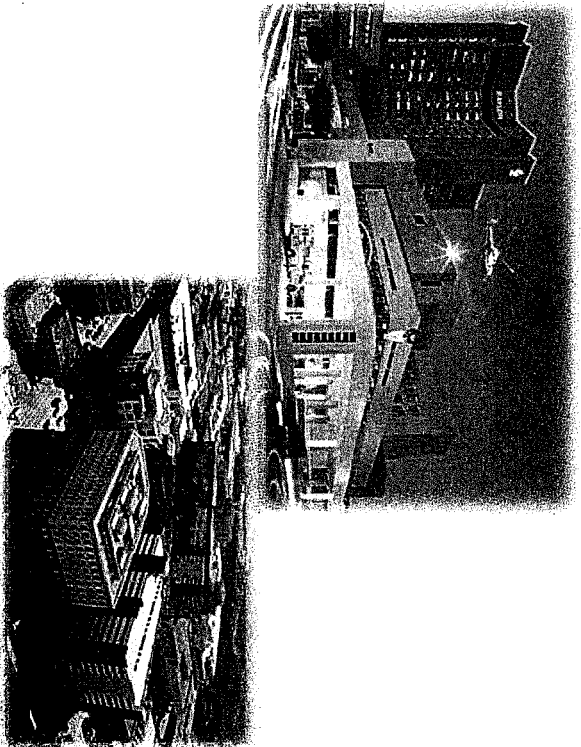




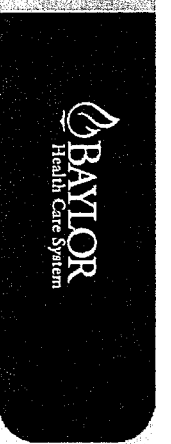
February 21, 2011



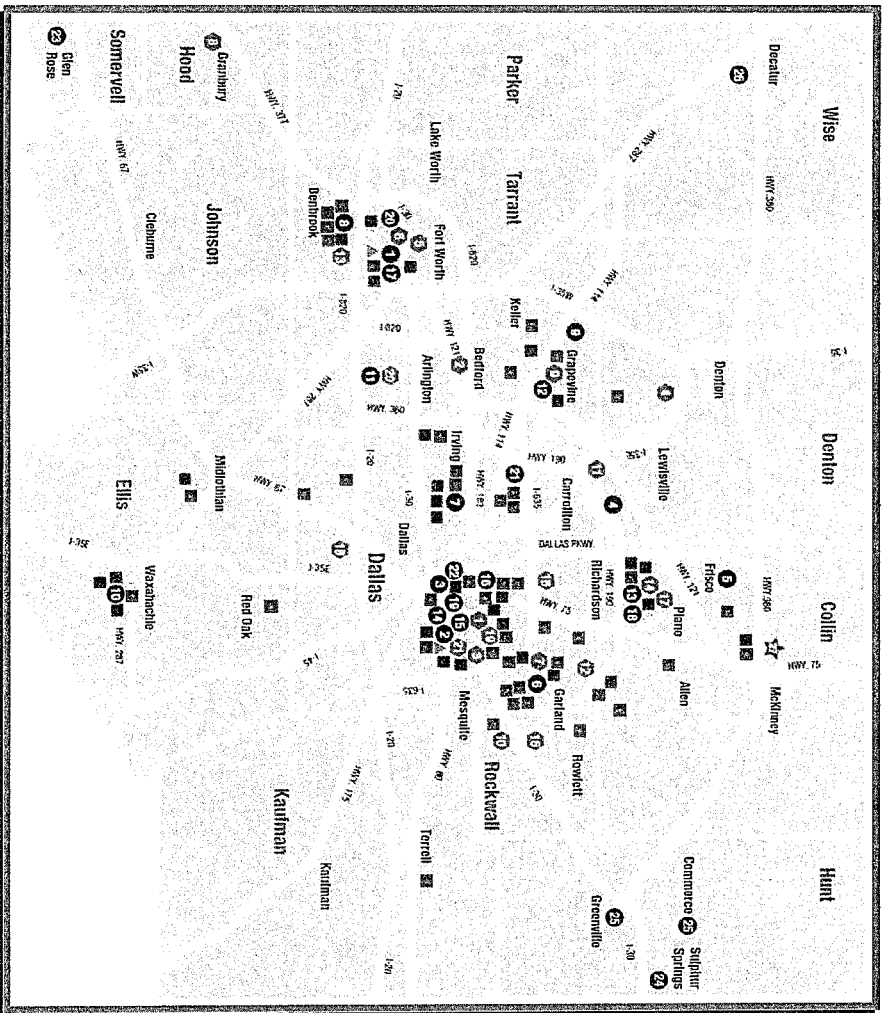
**Testimony for Senate
Finance Committee
Sub-Committee on
Medicaid**



**Joel T. Allison, FACHE
President & CEO
Baylor Health Care System**

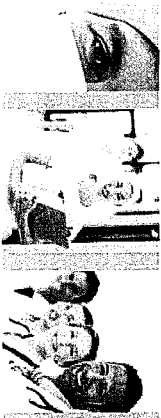


Baylor Health Care System is an 107 year private not for profit hospital system



263 Access Points

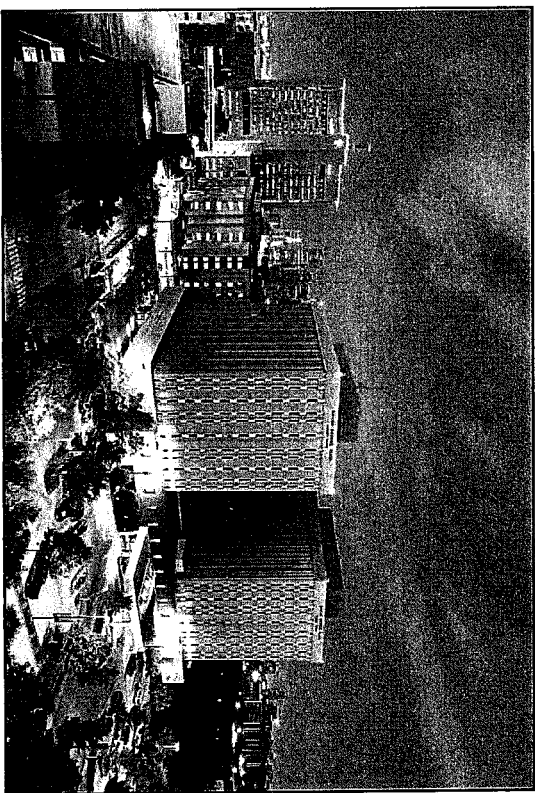
- 26 Owned/Operated/Ventured/Affiliated Hospitals
- 25 Ambulatory Surgery Centers
- 50 Satellite Outpatient Clinics (Imaging/Pain/Rehabilitation)
- 156 HealthTexas Locations
- 4 Senior Health Centers
- 2 Retail Pharmacies
- Baylor Research Institute
- 3 Philanthropic Foundations
- Level I Trauma Center



BAYLOR
Health Care System

BHCS FY 2010 Statistics

- 3,534 licensed beds
- 21,535 babies born
- 127,425 admissions
- 388,954 ED visits
- 624,950 outpatient registrations
- 500+ HealthTexas physicians
- 4,631 medical staff members
- 3,278 active physicians
- 19,736 employees
- 826 active research protocols
- 31 total medical education programs
- 216 current house staff at BUMC
- 18 Garland family practice residents
- \$272 million investment clinical transformation
- Community benefit \$514 million





The Safety Net is Catching More People

Urban not for profit systems around the State have already felt the effect of a shrinking budget and growing uninsured population

•Recent HHSC study on uncompensated care in Texas hospitals concluded that even after all Medicaid, DSH and UPL payments are included, Texas hospitals still have \$3.1 billion in uncompensated costs.

Increase in patient services provided by Baylor Health Care System between 2007 & 2010:

- Self pay increased 53.5%
- Medicaid increased 43.3%
- Medicare increased 30.1%
- Managed care increased 23.1%



Hospital Medicaid and Disproportionate Share

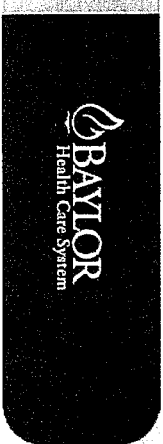
- A hospital's basic Medicaid payments are determined by an audited review of total and allowable costs. From this audit, a rate is determined that will cover those allowable costs. Per the recent rebasing effort, the rate is discounted by 40% as there isn't enough money in the Medicaid budget to fully cover allowable hospital costs. This creates a Medicaid payment shortfall for hospitals and for the 13 general acute care hospitals in the Baylor Health Care System, this totaled \$63.9 million in 2010.
- In addition, Baylor Health Care System provides a disproportionately large amount of low income care. Again, on a cost basis, after netting out any payments received by the patients themselves, we had a low income payment shortfall of \$101.2 million. Therefore, our total Medicaid and low income payment shortfall was \$165.1 million in 2010.
- As a result of providing a disproportionately large amount of Medicaid and low income care, Baylor qualifies for Medicaid Disproportionate Share Hospital (DSH) payments. In 2010, we received \$16.1 million. However, as much as these payments are helpful in closing the gap, we are still left with a Medicaid and low income shortfall of \$149 million.



Private Hospital Upper Payment Limit (UPL)

•UPL supplemental payments are not “extra money” but rather funds essential to reduce the shortfall between the cost of providing services to Medicaid beneficiaries and Medicaid payments for these services. In 2010, Baylor Health Care System recognized \$71.8 million in payments and incurred \$34.4 million in burden relief and other expenses incurred to address some of the service needs for Medicaid and other indigent patients. Even with this additional funding, BHCS was still left with a Medicaid and low income shortfall of \$127.8 million.

•Baylor has invested \$129.5 million since the 2007 beginning of the private hospital UPL program to help Parkland and JPS with the growing cost of serving the State’s Medicaid and other indigent patients. While our UPL payments have been essential to help meet the service needs for Medicaid and other indigent patients cover at our facilities, these supplemental payments have not been enough to fully cover the cost (not charges) of serving Medicaid and other indigent patients that come to our hospitals.



Concerns of Texas Hospitals

- Requiring local entities to transfer public monies without a reasonable expectation that they will recoup their investment;
- Requiring that all Managed Care Organizations (MCOs) and hospitals contract with one another in a service delivery area eliminates patient steerage, and compromises the public hospital's/local governmental entity's ability to reasonably expect that something of equal or greater value will be returned for their investment. This process undermines THHSC's ability to contain costs through competition and disrupts free market dynamics;
- Inserting the MCO into the payment reduces the UPL reimbursement to hospitals that provide the service of reimbursement;
- Requiring that all hospitals in a service delivery area receive a portion of the supplemental payment, even if they treat only a small volume of Medicaid patients.



UPL Importance

- UPL is critical to our ability to serve Medicaid and low income patients in the Dallas area, we have great concern over a managed care expansion that results in the reduction of those payments. According to HHSC, the UPL loss associated with the managed care expansion that is in the HHSC Appropriations request is \$438.9 million in 2012 and \$856.2 million in 2013. For the Baylor hospitals, we were told last week that the loss would be \$27 million although we have not had a chance to analyze the estimate.
- We know that this lost premium tax has to be accounted for, and I would certainly support efforts to make up those losses through adjustments in hospital payments (the best approach is an IGT from the publics to cover the state loss and a commensurate adjustment in the DSH weights or something similar to get the publics their money back so that the federal funds aren't lost as we cover the loss of state premium tax revenue).



UPL Initiatives in North Texas

Private hospital UPL is being used for greater patient access for the low income and uninsured.

Baylor supports the following initiatives:

Dallas County

- Supporting 6 charitable clinics:
Central Dallas Ministries, Christ Family Clinic, Healing Hands, Mission East Dallas, Hope Clinic
Garland, Interfaith Clinic Irving
- Opening 2 new Baylor-owned charitable clinics in FY12

Tarrant County

- Supporting 7 charitable clinics:
Healing Sheppard Clinic, Grand Prairie Wellness Center, Caring Place Clinic, Al-Shifa, Corner Stone
Medical Clinic, Mission Arlington, Grace Outreach

Baylor also supports:

- Diabetes Health and Wellness Institute
- Diabetes Equity Project
- Garland Emergency Department Expansion
- Community Transitional Care Discharge Planning
- Mobile House Calls for Uninsured with Complete Medical Issues
- Quality Initiatives



Savings Opportunities

The Commissioner has been inclusive in his approach to find savings and a solution. Baylor has continued on the cost saving measure through a variety of actions.

- Health and Wellness Thrive Program saves health costs for our employees
- Quality Initiatives improves outcomes, increases patient safety and reduces costs
- Investment in health information technology
- Lean Strategy removes wasted dollars and improves customer satisfaction
- Creation of Medical Home – allows patients to be seen in a less expensive medical setting
- Better Care of Chronic Diseases
- Diabetes Health and Wellness Institute – brings health and wellness to underserved community to reduce severity of illness in diabetes patients and decrease new incidence
- Preparing to accept bundled payment through ACO strategy