

September 23, 2011

The Honorable Nikki R. Haley
Office of the Governor
State House, 1st Floor
Columbia, SC 29201

Dear Governor Haley:

This letter is to convey the opposition of South Carolina's hospital community to a recent decision by the Department of Health and Human Services to cut supplemental payments to certain hospitals. As I shared with you when we spoke at a recent event, Tony Keck has proven himself to be a very capable leader for the agency and we enjoy working with him. Despite our effective working relationship with Tony and his team, however, we have strenuous objections to the agency's plan to reduce Disproportionate Share payments to certain hospitals, for the reasons outlined below.

Before detailing our concerns about reductions to Disproportionate Share payments, I want to note that hospital leaders worked closely with Tony to develop a cost-reduction strategy earlier in the summer. Specifically, we focused our collective energies on ways to reduce total spending that would also improve the health of our state's citizens. As an example, our collaboration with DHHS produced a birth outcomes initiative designed to increase maternal-child health in our state and simultaneously reduce total Medicaid spending on early deliveries and preventable neonatal intensive care unit (NICU) admissions. Our hospitals and the agency are proud of South Carolina's forward-thinking approach to budget challenges in Medicaid.

Nevertheless, we remain opposed to the agency's decision to reduce Disproportionate Share payments to certain hospitals, since these payments are intended to reimburse hospitals for costs they incur when they care for patients who have no insurance and are otherwise unable to pay for the health services they require. (As a result of Disproportionate Share payments, South Carolina hospitals currently receive about 70% of the costs they incur when they care for uninsured patients.)

Our primary objection to the agency's plan is that DHHS has turned a \$4.6 Million problem (the agency's target for spending reduction) into a \$20.8 Million problem (the total adverse impact on hospitals). The agency intends to save \$4.6 Million in state general fund dollars by reducing Disproportionate Share payments to hospitals. Because of the 70/30 match paid by the federal government, however, the total cut to hospitals will be \$20.8 Million. Said another way, this plan requires the affected

hospitals to give up \$20.8 Million in order to save the state \$4.6 Million. We believe that is a terrible financial decision given the state's precarious economy.

Finally, whenever the Disproportionate Share program is discussed, the hospital provider tax is sure to follow. And for good reason. The state's hospitals contribute \$264 Million annually to support the Medicaid program. And even though the tax is not legally tied to the DSH program, hospitals feel the state should acknowledge their tax contribution by doing everything possible to protect federal matching dollars to support hospitals. That's a nice way of saying the hospitals whose DSH payments are affected will be very angry their payments were cut while they are still paying the full provider tax. The affected hospitals view the current proposal as a tax increase.

To summarize, here are the problems we see with the agency's plan. First and foremost, it costs hospitals \$20.8 Million to save the state \$4.6 Million. And second, it penalizes hospitals that pay a provider tax to support the Medicaid program.

We cannot support either of the agency's two proposed alternatives for the reasons outlined above. South Carolina's hospitals believe it makes imminently more sense to pursue solutions that will save the state \$4.6 Million without costing hospitals \$20.8 Million.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Kirby', with a large, stylized flourish at the end.

J. Thornton Kirby, FACHE
President & CEO