

August 29, 2011

Anthony E. Keck, Director
SC DHHS
PO Box 8206
Columbia, SC 29202-8206

Dear Tony:

This letter is to convey SCHA's response to the Disproportionate Share proposals Roy Hess and Jeff Saxon shared with our team late last week. Roy and Jeff were professional, as always, but we have strenuous objections to the two proposals they delivered on behalf of the agency.

First of all, we've all known since June that DHHS was considering changes to the way Disproportionate Share funds will be allocated to hospitals in the coming federal fiscal year. But we haven't had time to consider or react to a specific plan; we had no preview of the agency's intentions until last Thursday afternoon. Your request for SCHA's comments by today (Monday) allowed us two business days to seek input from our state's hospitals. When the Disproportionate Share program was restructured in 2005, we had countless meetings over nearly a year with the agency and with hospital leaders before we designed a system that everyone could support. Two days is an insufficient period of time for comment on such an important change to state reimbursement policy.

Our second objection is that DHHS has turned a \$4.6 Million problem (your budget target) 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 DSH 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 hospitals to give up \$20.8 Million in order to save the state \$4.6 Million. 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. This is a tax increase on the affected hospitals.

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. Second, it penalizes hospitals that pay a provider tax to support the Medicaid program; they will likely feel angry and betrayed. Third, it causes a potential schism among the hospital community (winners and losers). And fourth, because there will be winners and losers it will cause many hospitals to be angry with the Medicaid agency and will likely impair our collective ability to pursue much-needed changes to the Medicaid system. All these negative consequences just to save the state \$4.6 Million; it doesn't make good sense.

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 have a total financial impact of \$4.6 Million. We see at least two such solutions.

First, the agency has available nearly \$70 Million of tobacco tax revenues in this year's budget to mitigate any unforeseen access problems. Since Disproportionate Share funds are used by hospitals to cover the costs associated with uninsured patients who cannot pay for their own care, this is clearly an access issue.

Second, the state's revenues have exceeded projections by a substantial amount. The leadership of the General Assembly (many of whom represent hospitals that would be affected) might agree to give the agency an additional \$4.6 Million in order to prevent the loss of federal matching funds for their hospitals.

Either of these two alternatives makes imminently more sense than cutting hospitals \$20.8 Million to save the state \$4.6 Million.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Kirby", with a long horizontal flourish extending to the right.

J. Thornton Kirby, FACHE
President & CEO