

## 1115 Waiver Background

In the most recent legislative session, the State of Texas decided to expand Medicaid managed care throughout Texas, bringing in areas that had not yet implemented managed care, such as the Rio Grande Valley. The State estimates that this expansion of managed care will save approximately \$400 million annually by using managed care organizations (HMOs) to coordinate care for the Medicaid population.

In expanding Medicaid managed care, the State also needed to change the way Texas hospitals are reimbursed by the federal government for treating Medicaid patients. Services provided to Medicaid patients in managed care do not qualify for supplemental payments that cover the gap between Medicaid and Medicare reimbursement levels.

Therefore, now that the entire state is under managed care, hospitals can no longer access the supplemental payments. To avoid the loss of this funding, the State applied for a special waiver of certain Medicaid conditions through section 1115 of the Social Security Act. Commonly referred to as the 1115 Waiver, this section permits states to undertake research and demonstration projects that enhance the quality or reduce the cost of Medicaid services.

The 1115 waiver is a five-year project that has two main objectives: first, to continue to provide supplemental federal funding to Texas hospitals for Medicaid patients; and second, to improve the healthcare delivery system for everyone, not just Medicaid recipients. We are already in the first year of the waiver, which is a transition year, with most of the changes to the program coming in the second through the fifth years of the waiver.

In keeping with the two objectives of the waiver, there will be two separate funding pools for supplemental payments. The first pool is the Uncompensated Care Pool, which will pay hospitals based on their uncompensated care costs. The second pool is called the Delivery System Reform Incentive Pool (“DSRIP” or the “incentive pool”). This second pool will be used to foster changes to the healthcare delivery system and must be earned through meeting performance targets that will be determined in advance. Funds drawn down under the waiver must be initiated through an intergovernmental transfer or “IGT,” which is a local government match that is then supplemented with federal funds.

The waiver goals will be accomplished through the formation of Regional Healthcare Partnerships (RHPs), which will include hospitals and local governments. Each RHP will also have an “anchor entity” that is charged with the development of the region and the resulting partnership and its plan. This anchor entity should be a public hospital or a local government, generally the local government making the largest intergovernmental transfer in the region -- in Central Texas, that entity is Central Health.

As discussed above, HHSC has preliminarily identified a multi-county region here in Central Texas to be this area’s RHP and has preliminarily designated Central Health as the “anchor entity” for the region.

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