

BRIEFING MEMORANDUM

TO: Board of Managers
FROM: Jonny F. Hipp, Administrator
DATE: October 27, 2026
RE: HHSC Policy for Acceptance of Intergovernmental Transfers Effective Oct. 1, 2026

I. Purpose of This Memorandum

This memorandum summarizes the Texas Health and Human Services Commission (HHSC) Provider Finance Department's October 6, 2026 presentation concerning new conditions for acceptance of intergovernmental transfers (IGTs) supported by mandatory payments deposited in local provider participation funds (LPPFs). It describes the revised assessment basis, Medicare cost report methodology, separate banking and reporting arrangements, required submissions, and implications for the Nueces County Hospital District (District).

II. New Policy Effective October 1, 2026

Beginning October 1, 2026, HHSC will accept IGTs supported by mandatory-payment revenue deposited into an LPPF for assessment periods beginning on or after that date only when the assessments are imposed exclusively and separately on net patient revenue (NPR) attributable to inpatient hospital services and NPR attributable to outpatient hospital services. The prior approach of assessing aggregate hospital NPR is not sufficient for these new assessment periods. (HHSC slides 2–3.)

HHSC describes these conditions as requirements for its acceptance of IGT funding. The presentation does not purport to amend Chapter 298C itself; rather, it establishes the documentation and implementation criteria HHSC will apply to LPPF-supported transfers.

III. Transition for Earlier Assessment Periods

HHSC's attestation distinguishes (A) assessments for tax periods beginning on or after October 1, 2026, which must use separately derived inpatient and outpatient NPR from the most recent Medicare cost report as defined by HHSC, from (B) assessments for tax periods beginning on or before September 30, 2026, imposed on aggregate NPR, regardless of when those assessments are collected. The District should therefore identify assessment revenue by the applicable assessment period, rather than by collection date alone. (Slide 5.)

IV. Medicare Cost Report Methodology

A. Source and Priority of Cost Reports

HHSC will calculate inpatient and outpatient NPR using charge lines identified in the Centers for Medicare & Medicaid Services (CMS) Upper Payment Limit (UPL) guidelines, together with NPR and total patient revenue from Worksheet G-3. HHSC will use the most recent Medicare cost report available in the Healthcare Provider Cost Reporting Information System (HCRIS) at the time of its review, primarily FY2025. FY2024 is next in priority if FY2025 is unavailable. HHSC may blend short-period reports with a recent report to obtain 12 months; if no full-year report exists, it will use an available partial-year report. American Hospital Association annual survey data will not be accepted as a substitute. (Slides 13–14.)

B. Cost Report Fields Identified by HHSC

Inpatient charges: Worksheet C, Part I, lines 30–76, column 6.

Outpatient charges: Worksheet C, Part I, lines 50–98, column 7.

Net patient revenue: Worksheet G-3, line 3, column 1.

Total patient revenue: Worksheet G-3, line 1, column 1.

HHSC specifies that all subscribed lines within the cited ranges are included. The presentation identifies the inputs but does not provide a fully worked calculation or detailed reconciliation instructions. Accordingly, the District should document its allocation calculations and resolve methodological questions with HHSC before relying on them for assessments. (Slide 15.)

V. New LPPF Bank Account, TIN, and TexNet

HHSC requires all LPPFs to establish a separate bank account, taxpayer identification number (TIN), and TexNet arrangement for provider taxes or mandatory assessments imposed on and after October 1, 2026. The separation distinguishes receipts associated with the former aggregate-NPR assessment periods from receipts associated with the new inpatient/outpatient NPR methodology. HHSC cautions that establishing the new TIN and TexNet arrangement takes time. (Slide 9.)

VI. Required Documentation and Attestation

HHSC requires every local governmental entity administering an LPPF, regardless of its operating or rate year, to submit documentation and an attestation establishing compliance. The presentation identifies the following attachments. (Slides 4–6, 8–10.)

Attachment A — Notice of Public Hearing or Declaration of Intent.

Attachment B — Public Hearing Meeting Minutes.

Attachment C — Rules and Procedures for the Provider Participation Program.

Attachment D — Signed Resolution.

Attachment E — Form 4108, Direct Deposit for the TIN.

Attachment F — Form 4109, Application for the TIN.

Attachment G — TexNet information.

The governing documents should identify the date of the meeting or resolution and appropriate signature; make clear that the action applies to assessments on and after October 1, 2026; state the intent to use Medicare cost reports and the CMS UPL methodology to calculate inpatient and outpatient NPR separately; identify the new LPPF bank account; state the effective date in the minutes and/or resolution; and acknowledge compliance for future IGT program periods. (Slide 8.)

The attestation requires the submitting governmental entity to certify that its IGTs satisfy the applicable pre- or post-October 1 assessment-period criteria and that the information submitted is true and prepared from its records. HHSC states it will review the submission and determine whether to accept or deny IGTs; additional documentation may be required following a denial. (Slides 5 and 10.)

VII. Submission Deadline and Review

Several slides show an original November 6, 2026 deadline expressly updated to November 18, 2026; slide 11 nevertheless repeats November 6. The updated date appears on slides 4–9, including the explicit November 18 deadline for Forms 4108 and 4109 and TexNet information. The District should use November 18 as the presentation’s stated updated deadline while confirming the controlling submission date directly with HHSC in view of the inconsistent slide. HHSC indicates it will advise of requests for additional information within three business days after receipt. (Slides 4–11.)

VIII. Near-Term Medicaid IGT Schedule

HHSC identified the following State Fiscal Year 2027 program dates attributable to Federal Fiscal Year 2027. These are HHSC’s announced dates in the October 6 presentation, not confirmation that a particular District transfer is due under each program. (Slide 12.)

RAPPS — notification October 29, 2026; IGT settlement November 18, 2026.

CHIRP — notification October 30, 2026; IGT settlement November 20, 2026.

TIPPS — notification November 4, 2026; IGT settlement November 24, 2026.

IX. Compliance Risks and Outstanding Guidance

HHSC states that unacceptable or missing documentation will prevent it from accepting the affected IGT until additional information has been reviewed. HHSC is still developing public information on monitoring IGTs and submitted amounts and additional guidance on changes of hospital ownership, blending cost reports, and prorating to 12 months. These unresolved details may affect hospital-level calculations and supporting records. (Slides 10 and 16.)

X. Implications for the District

Ensure the Board’s hearing notice, minutes, rules, and procedures, and signed action consistently specify separate inpatient and outpatient NPR assessments effective October 1, 2026.

Maintain an auditable record of the selected HCRIS cost report, applicable reporting period, charge-line extracts (including subscripts), and Worksheet G-3 amounts for each hospital.

Establish and document the separate LPPF bank account, TIN, and TexNet arrangements and preserve the distinction between old and new assessment-period receipts.

Complete the required attachments and attestation; confirm the deadline and any outstanding technical questions with HHSC before submission.

Coordinate the documentation review and account setup with upcoming IGT notification and settlement dates, as applicable.

XI. Summary Assessment

HHSC’s October 2026 policy materially changes the operational prerequisites for using LPPF mandatory-payment proceeds as the nonfederal share of Medicaid payments. For assessments applicable to periods beginning October 1, 2026, separate inpatient and outpatient NPR calculations, Medicare cost report support, distinct banking and transfer infrastructure, and acceptable governing documentation are central to HHSC’s decision to accept IGTs. Timely Board action, defensible calculations, and coordinated submissions are therefore important to maintaining the District’s participation in applicable Medicaid funding arrangements.

Source: Texas HHSC, Provider Finance Department, “New Policy for Acceptance of IGT Funding for the Texas Medicaid Program Effective October 1, 2026,” webinar presentation, October 6, 2026, slides 2–17.