Texas Essential
Healthcare Partnerships

STEP BY STEP: A GUIDE TO LOCAL PROVIDER PARTICIPATION FUNDS

What is an LPPF?

A Local Provider Participation Fund (LPPF) helps fund the non-federal share of Medicaid supplemental payments to private safety-net hospitals. Hospitals pay funds into an LPPF thru mandatory provider payments to the local government that has established the LPPF. The local government transfers these funds to the State using a mechanism called Intergovernmental Transfer, or IGT. The State provides the funds to the Federal Government causing the Federal Government to send Federal matching funds down to Texas. The State sends matched funding back out to hospitals in a supplemental payment program.

Why set up an LPPF?

Historically, local government entities consider establishing an LPPF when local hospitals come forward requesting it. LPPFs are extremely important to keep community hospitals financially viable and are currently helping to draw down close to $1 billion per year in Federal funding for private hospitals in Texas.

Under current law, these supplemental payments may include:

- Uncompensated Care (UC) Payments
- Uniform Hospital Rate Increase Program (UHRIP) Payments
- Delivery System Reform Incentive Payment Program (DSRIP) Payments
- Disproportionate Share Hospital Program (DSH) Payments
- Graduate Medical Education (GME) Payments

The enabling statute for each LPPF specifies what types of supplemental payment programs the LPPF can fund. Some enabling statutes prohibit use of funds for specific supplemental payment programs.

Who is Responsible for the LPPF?

Each LPPF is a cooperative effort between state, and local government and local private hospitals.

- **The State Legislature** passes a statute that grants the local governmental entity (county, hospital district, or city) authority to create the LPPF for that local jurisdiction.

- **<u>The local governmental entity</u>** (county, hospital district, or city) creates the LPPF and the rules for running the LPPF. Each year, the local governmental entity sets the rate for the mandatory payments to be assessed, collects the mandatory payments from providers, and transmits them to the state via IGT.

- **<u>The private hospitals</u>** within the local jurisdiction make mandatory payments into the LPPF at the rate set by the local governmental entity and on the schedule set by the LPPF rules.

<u>Who is Responsible for the Supplemental Payment Programs?</u>

Note that the state and federal Medicaid agencies establish rules for the supplemental payment programs that are supported by funds transferred from the LPPF:

- **<u>The Texas Health and Human Services Commission (HHSC)</u>** sets some of the rules for participating in various supplemental payment programs, including the schedule for when IGTs from the local governmental entities are due.

- **<u>The federal Centers for Medicare and Medicaid Services (CMS)</u>** sets some of the rules for participating in various supplemental payment programs and matches the states' IGT funds at a predetermined rate.

<u>Getting Started</u>

Once an LPPF has been authorized by an enabling statute passed by the Texas State Legislature, the local government entity may choose to set one up and administer it. The following activities are required to establish and administer an LPPF:

1. **Establish the LPPF.** This is done by

   a. Adopting an appropriate ordinance or resolution by the governing body. Most statutes require publication of notice and holding a formal public hearing before action is taking.

   b. Putting in place "Affiliation Agreements" between the Local Government Entity and the local private hospitals for which the local governmental entity provides IGT.

   c. Adopting LPPF governing rules. Most statutes require publication of notice and holding a formal public hearing before adoption of rules.

2. **Set a LPPF Rate for each fiscal year**. Each year, the governing body must convene a public hearing on the amounts of any mandatory payments to be collected during the year and how the revenue derived from those payments is to be spent. All statutes require publication of notice and holding a formal public hearing before action is taken. This rate is assessed on all private hospitals in the

local government jurisdiction as a percentage of net patient revenue and may not exceed 6%. Some counties delay setting a rate until well into a fiscal year and may be required to convene more than one rate setting hearing during each fiscal year to accommodate multiple funding requests from HHSC.

Hospitals, through their consultants such as Adelanto HealthCare Ventures ("AHCV"), go through complex calculations to determine IGT amounts necessary to fund the non-federal share of applicable supplemental payments. Hospitals may then recommend corresponding mandatory payment rates to the local governmental entities who administer the LPPF. Due to the complexity of these calculations and challenges associated with securing data from HHSC, recommended mandatory payment rates and IGT amounts may not always be available until just before the IGT deadline. This may require governmental entities to act with short notice to schedule rate setting hearings.

3. **Invoice and Collect Funds and make IGTs when called for by the State**. Local governance rules for each LPPF determine when and how hospitals are invoiced and pay into the fund. Each governing body must designate one or more banks located in the local jurisdiction as the depository for mandatory payments received by the jurisdiction. All income received in mandatory payments, including the revenue from mandatory payments remaining after discounts and fees for assessing and collecting the payments are deducted, must be deposited with the designated depository.

Certain documentation on all of this must be provided to HHSC. Template documents are available from Texas Essential Healthcare Partnerships (TEHP) for all the above activities. These templates have been prepared by AHCV, which is a consulting firm engaged by TEHP and many hospitals around the State to advise hospitals and coordinate between them to keep these LPPFs and programs working.

Maintenance

Once an LPPF has been set up by the local governmental entity, that entity remains responsible for setting the mandatory rate, collecting it from providers, and transmitting it by IGT to HHSC.

Can the Local Government keep some of the LPPF funds?

The cost to administer an LPPF is minimal. Therefore, LPPF statutes allow a local government to keep a small amount of the mandatory payments to defray these administrative costs. Each statute provides a cap on these administrative costs.

How Does TEHP Fit In?

Texas Essential Healthcare Partnerships is an association of private hospitals operating in counties, cities, or hospital districts that have implemented an LPPF. TEHP provides hospitals and local governmental entities with educational resources about LPPFs and other Medicaid related programs. TEHP also works to facilitate clear communication between HHSC and the members of TEHP, seeking opportunities to foster cooperative rulemaking and obtain both formal and informal guidance on the rules applicable to our membership.

TEHP engages AHCV, a nationally well-known consulting firm with leading expertise in supplemental payment programs for hospitals and the administration of LPPFs. AHCV is deeply involved in LPPFs operating in Texas on behalf of its client hospitals which operate within those LPPF jurisdictions.

How Can I Get More Assistance?

For answers to additional questions, or assistance in setting up or administering an LPPF, contact TEHP President Donald Lee at don@tehp.org, or call (512) 212-1152.

LPPF Guide, Version 1, July 2019.