

December 13, 2011

The Honorable G. Murrell Smith, Jr.
Chairman, Health & Human Services Budget Subcommittee
House Ways & Means Committee
420B Blatt Building
Columbia, SC 29201

Dear Mr. Chairman:

Thank you for giving us the opportunity to communicate with you and the members of your subcommittee regarding the budget presentation by the Department of Health and Human Services on Thursday, December 15.

SCHA and our member hospitals recognize the financial constraints South Carolina state government has faced over the past several years. Even though we pointed out the problems that a mid-year rate cut would create for hospitals, we did not actively oppose the repeal of the rate protection proviso. We also worked with SCDHHS to develop several cost savings initiatives that had the effect of reducing the July rate cut from 7% to 4%. The latest information indicates that these measures are resulting in the anticipated savings. We are continuing to explore other healthcare cost areas that have the potential to help in both the government and private arenas. Director Keck serves on SCHA's Healthcare Reengineering Steering Committee and he co-chairs the Payment Reform and Alignment Team (along with Jim Deyling of SC Blue Cross/Blue Shield). The work of this group will add significant value to our overall goal of improving the health status of South Carolinians through higher quality care at the best value. Although the financial horizon appears to be brightening, we also understand that you and your colleagues must continue to be measured in your approach to funding government healthcare programs as there are still many uncertainties, especially in Medicaid.

Although we have cooperated with DHHS in many of the decisions they have taken, we do take exception to a couple of their actions. With regard to the current fiscal year budget, the department reduced the Disproportionate Share Hospital (DSH) payments to hospitals by \$2.6 million in state funds that equated to an \$8.7 million total cut. Although we are appreciative of the department's willingness to work with SCHA in reducing the original proposed cut from \$4.6 million, we still believe this reduction is not financially prudent. The leveraging of federal funds is so significant that hospitals lost in excess of \$8 million in order to save the state \$2.6 million. As one hospital CEO pointed out, his hospital is being cut \$1.4 million to solve a \$2.6

million state problem. Eighteen of the state's hospitals will have their DSH payments reduced. At a time when our state's uninsured population is increasing and payments by government payers are decreasing, giving up the opportunity to leverage our highly favorable FMAP rate is ill advised. We are not suggesting DHHS fund this \$2.6 million from its existing budget, but we respectfully ask the subcommittee to work with the agency to find other sources of revenue.

We are also concerned that DHHS has indicated in their proposed FY 2013 budget that they not increase the DSH cap. Even though the DSH pool is a capped resource, each year the federal government adjusts the pool for inflation. By not taking advantage of this increase, South Carolina is leaving dollars on the table even though hospitals continue to see an increasing number of uninsured patients. If it is a matter of state matching dollars, SCHA would certainly be willing to work with the State to look at options for the necessary funding.

Again, thank you for the work you and your members do to protect the healthcare of all South Carolinians and the hospitals that serve them. If you have any questions, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Kirby". The signature is fluid and cursive, with a large loop at the end.

J. Thornton Kirby
President/CEO

C: The Honorable Harry Ott
 The Honorable Bill Herbkersman
 The Honorable Tracy Edge
 Tim Rogers