Parkland Hospital

Parkland Hospital in Dallas, Texas is a large public hospital that relies on Medicaid disproportionate share hospital (DSH) and non-DSH supplemental payments to pay for the care it provides to a high number of Medicaid-enrolled and uninsured patients. Because the hospital is so reliant on supplemental payments, hospital executives are particularly concerned about any state or federal policies to reduce or reallocate this funding.

Hospital and Market Characteristics

Parkland is a part of the Dallas County Hospital District, also known as the Parkland Health & Hospital System, a county-owned safety-net provider that includes an ambulatory surgery center and multiple primary care, specialty care, and skilled nursing facilities. It is the primary teaching hospital for the University of Texas Southwestern Medical Center. Parkland received $191 million in DSH payments in 2012, which represented about one-third of its total Medicaid revenue ($543 million) and 16 percent of its total operating revenue ($1.2 billion).

Role in the safety net

About half of Parkland's patients are uninsured and about one-quarter are enrolled in Medicaid (not including patients dually eligible for Medicare and Medicaid). Parkland cares for a much higher share of Medicaid and low-income patients than other hospitals in Texas or in the hospital referral region (HRR) (Table 1). As the public hospital for Dallas County, Parkland is legally responsible for providing medical care to all indigent persons who reside in the county and do not qualify for other state or federal health care assistance programs.

TABLE 1. Medicaid and Low-Income Utilization Statistics for Parkland Hospital and Other Hospitals, 2014

Comparison region	Medicaid inpatient utilization rate	Low-income utilization rate
Parkland Hospital (Dallas, TX)	25%	49%
Dallas, TX hospital referral region average	14	13
Texas average	15	17
National average	18	13

Notes: The Medicaid inpatient utilization rate is the percentage of hospital inpatient days that are attributable to patients who are eligible for Medicaid. The low-income utilization rate is a measure of Medicaid and charity care utilization.
Source: MACPAC, 2016, analysis of 2014 Medicare cost reports

Medicaid and CHIP Payment and Access Commission

1800 M Street NW
Suite 650 South
Washington, DC 20036

www.macpac.gov
202-350-2000
202-273-2452

Types of services provided

Parkland offers a range of hospital, primary care, and specialty care services, and in recent years has expanded its capacity substantially to provide these services. The Parkland Health & Hospital System has the only burn unit within its region that is certified by the American College of Surgeons, and it is one of only two Level I Trauma Centers. In 2015, Parkland moved to a new 770-bed facility and started offering skilled nursing care when it acquired the licenses of 12 nursing homes in the Dallas-Fort Worth area.

According to Parkland executives, the hospital system has made a strong push in recent years to promote primary care, and in 2016, Parkland provided 20 times as many outpatient clinic visits as inpatient hospital stays. Parkland also manages its own Medicaid managed care plan (Parkland Community Health Plan) and the health system of the Dallas County jail. Because of Parkland's focus on low-income populations, it has developed special programs to address the social determinants of health and obstacles to care, such as transportation and language barriers. Executives reported that programs such as these have allowed Parkland to improve efficiency and reduce demand for inpatient services, although the demand continues to be greater than they can meet, which they partially attribute to Dallas's continued population growth.

Market characteristics

Parkland is the second largest hospital in Dallas (after Baylor University Medical Center) and the largest provider of care to Medicaid-enrolled and uninsured patients among the 59 hospitals in the Dallas HRR, which includes several other large academic medical centers. Parkland executives said that although hospitals in the community compete on some services (e.g., Medicaid obstetrics services), their relationship is, on balance, collaborative.

Apart from being the primary safety-net hospital in the Dallas market, Parkland has a unique role in that it provides the state financing of Medicaid supplemental payments for area private hospitals through intergovernmental transfers (IGTs).[1] Executives reported that medical residents and physicians from other academic medical centers provided Parkland with contracted services valued at approximately $120 million a year in separate transactions unrelated to IGT funding.

About one-third of Parkland's revenues ($496 million) came from local property taxes in 2015. Due to rising property values in Dallas in recent years, property tax funding has been a growing revenue source for Parkland, and this source of funding helps support its safety-net mission.

State Context

Texas has the highest uninsured rate in the country (17.1 percent of the state population in 2015), and as a result hospitals in Texas reported that uncompensated care accounts for a large share of their operating costs (8.0 percent in the aggregate in 2014). The state has not expanded Medicaid under the Patient Protection and Affordable Care Act (ACA, P.L. 111-148, as amended).

Texas makes large DSH and non-DSH supplemental payments to many hospitals in the state to help offset their uncompensated care costs. In 2014, supplemental payments accounted for 19 percent of Texas Medicaid spending, and in 2012, about one-third of hospitals in Texas received DSH payments. The non-federal share of DSH payments is provided by IGTs from public hospital districts like Parkland.

Effects of the Affordable Care Act

Parkland executives reported little change in the level of uncompensated care since 2014. They also said that the share of Medicaid and privately insured patients Parkland cares for has remained relatively unchanged over that time period. Parkland executives noted that even if Texas had expanded Medicaid under the ACA, many of their uninsured patients would still not have insurance because of their citizenship status. However, the executives felt that if Texas were to expand Medicaid, Parkland would benefit financially from some decrease in the number of uninsured patients.

State policy changes affecting Medicaid supplemental payments

Executives explained that beginning in 2014, the state changed the DSH allocation formula to distribute more DSH funding to privately owned hospitals and less DSH funding to public hospitals. Specifically, Texas changed its DSH allocation formula from one that equally weighted the number of uninsured inpatient days and the number of Medicaid inpatient days to one that put an increased emphasis on the number of Medicaid inpatient days. More than 170 Texas hospitals now receive DSH funding, about one-third of all hospitals in the state. As one executive observed, "Texas's DSH should be called the Proportionate Share Program, not the Disproportionate Share Program."

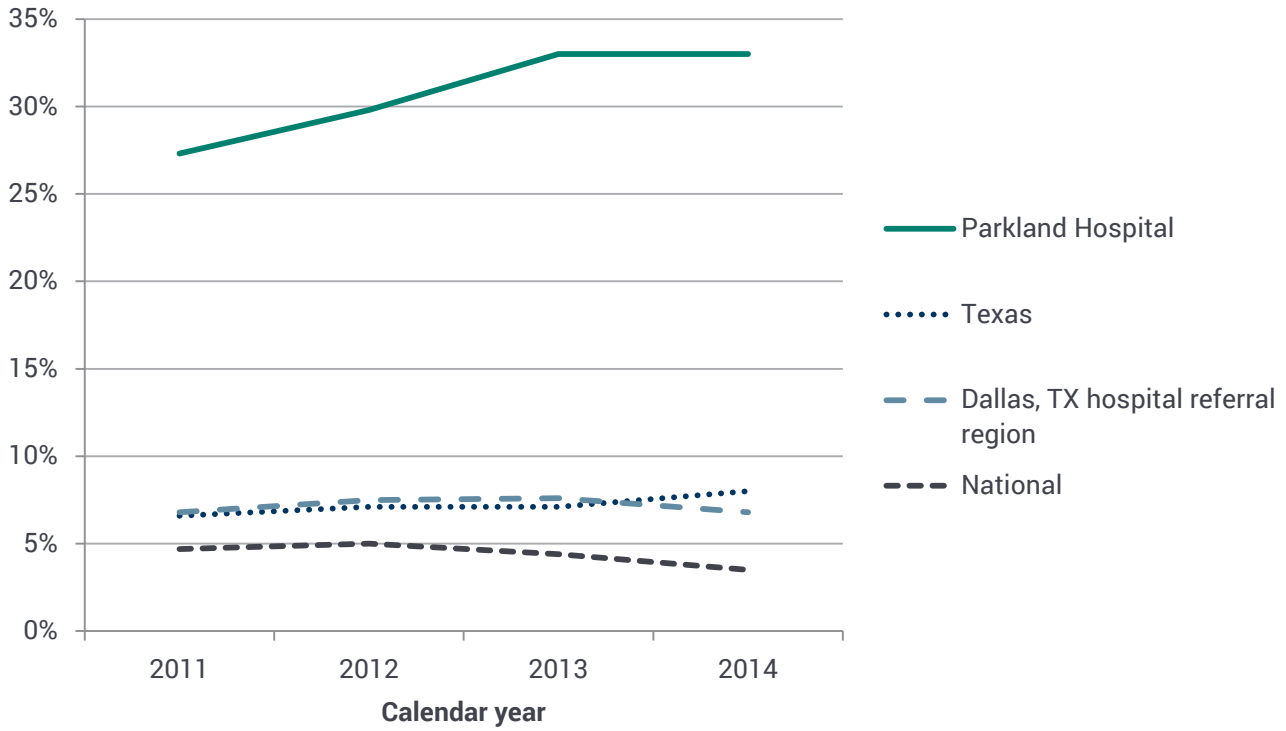
Texas also makes large non-DSH supplemental payments to hospitals through its Section 1115 demonstration, which authorizes an uncompensated care (UC) pool and a Delivery System Reform Incentive Payment Program (DSRIP). UC payments fund uncompensated care, similar to DSH, and DSRIPs are designed to give hospitals and other providers incentives to develop programs and strategies to improve access to care and the quality and effectiveness of care, among other goals. These payments replace upper payment limit (UPL) supplemental payments that the state made under fee-for-service (FFS) prior to its demonstration.[2]

Hospital Financial Information

Uncompensated care

In 2011, bad debt and charity care represented about one-quarter of Parkland's operating costs, a substantially greater share than that reported by other hospitals in its HRR region and in the state at large (Figure 1). Medicare cost report data suggest that Parkland's charity care and bad debt uncompensated care costs increased between 2011 and 2014.

FIGURE 1. Uncompensated Care as a Share of Hospital Operating Expenses, Parkland Hospital versus Other Hospitals, 2011–2014



Note: Medicare cost reports define uncompensated care as charity care and bad debt.
Source: MACPAC, 2017, analysis of Medicare cost reports

Medicaid payment shortfall

According to Texas's 2012 DSH audit report, base Medicaid payments to Parkland for inpatient and outpatient care (not including any Medicaid supplemental payments) covered approximately 68 percent of the hospital's Medicaid costs. Parkland executives, however, reported that Medicaid shortfall has been increasing as base Medicaid payments have fallen. They estimated that Medicaid payments now cover about 60 percent of the cost of providing services to Medicaid enrollees.

Medicaid DSH payments

According to Parkland executives, because of a change in Texas's DSH policy, Parkland's net DSH revenue has declined in recent years and further drops are expected in 2017, even while reported DSH payments to the hospital have increased. For example, in 2016 Parkland received DSH payments totaling $218 million, up from $188 million in 2015. Parkland's IGT contribution, however, went up even faster, increasing from $115 million in 2015 to $156 million in 2016. Thus, after accounting for its IGT contribution, what Parkland netted in DSH payments dropped from $72 million in 2015 to $62 million in 2016 (a 14 percent drop). Net DSH payments are projected to be $54 million in 2017, a further decline.

Due to this reduction in DSH payments and decreases in other Medicaid supplemental payments (see below), Parkland's fiscal year (FY) 2017 budget plans to cut spending by about 4 percent in 2016 and reduce staff by 300 positions in 2017.

Other Medicaid supplemental payments

Non-DSH Medicaid supplemental payments accounted for nearly one-third (28 percent) of Parkland's Medicaid payments in 2012. Parkland executives noted, however, that between 2012 and 2014, non-DSH Medicaid supplemental payments declined when the hospital system shifted from receiving UPL payments to UC pool payments under Texas's Section 1115 Medicaid demonstration waiver.

As with DSH payments, Parkland funds the state share of UC pool payments with IGTs. Although Parkland's net UC pool payments increased between 2012 and 2013, its net UC pool payments have declined more recently. For example, net UC pool payments decreased from $133 million in 2013 to $58 million in 2016. Parkland executives explained that a drop in UC pool payments was expected and is part of the design of the demonstration waiver. Specifically, over the life of the waiver, UC pool payments are scheduled to decline while DSRIP payments will increase.

Executives said that DSRIP payments are an important revenue source for Parkland, although they are not direct reimbursements for uncompensated care such as UC or DSH funding. In 2015, Parkland's net DSRIP payments were $52 million, which helped make up for some of the drop in DSH payments experienced that year.

With regard to other Medicaid supplemental payments, Parkland netted about $11 million in UPL payments received through its nursing homes. Executives said that a portion of these UPL payments were used to pay for nursing home care for difficult-to-place, uninsured, hospitalized patients who required post-acute care. They also said that the Centers for Medicare & Medicaid Services (CMS) told Texas that these UPL payments are no longer permissible. Parkland also receives UPL payments through its health plan, but Parkland executives said that even with these UPL payments, overall Medicaid supplemental payments have declined in recent years.

Role of DSH Funding

Parkland executives stated that Medicaid DSH payments helped cover the system's costs of caring for uninsured patients and the payment shortfall for Medicaid-enrolled patients, which together made up over three-quarters of Parkland's patient population in 2015. In addition, executives said that Medicaid DSH payments, supplemented by funds from Parkland's charitable foundation and property tax revenue received from Dallas County, have supported Parkland's development of a system of care that provides access to outpatient services (e.g., preventive, primary, and specialty care) regardless of a patient's socioeconomic or insurance status. Executives expressed the belief that this purposeful growth in outpatient services has benefited other hospitals in the local market by helping keep uninsured patients out of their emergency rooms. Finally, Parkland executives reported that DSH payments helped support

language services, case management, and other services that address the specific needs of Parkland's patient population.

Data and Methods

The information in this profile comes from interviews with hospital executives during the summer and fall of 2016 and MACPAC's analysis of Medicare cost reports, DSH audits, and other publicly available data. For a summary of the findings from all seven DSH hospitals that we profiled and more information about our methods, please see MACPAC's issue brief, *Profiles of Disproportionate Share Hospitals*.

MACPAC would like to thank Teresa Coughlin and Christal Ramos at Urban Institute for designing and conducting the interview with Parkland Hospital that was the basis for this profile. The interview was one of seven interviews with executives from safety-net hospitals across the country that occurred between June and October of 2016.

Endnotes

[1] An IGT is a transfer of funds from another governmental entity (e.g., a county or other state agency) to the Medicaid agency before a Medicaid payment is made. IGTs may also be contributed directly by governmental providers themselves, such as hospitals operated by state or local government. The ability of states to use IGTs to finance their Medicaid programs is recognized in both federal statute and regulation (§1903(w)(6) of the Social Security Act; 42 CFR 433.51).

[2] An upper payment limit (UPL) is the maximum aggregate amount of Medicaid fee-for-service payments that a state may make to a class of institutional providers. A UPL payment is a supplemental payment to a Medicaid provider based on the difference between the amount paid in standard payment rates and the UPL.