Executive Summary of Hospital Settlement Agreement

Background
- Resolves legal claims that potentially expose state to roughly $4 billion in liability
- Improves the state’s financial position in FY 2020 by approximately $300 million when compared to hospital user fee and payment provisions under PA 17-4, June Special Session
- Requires legislative approval (CGS § 3-125a) and implementing legislation

Settlement Overview
- 7 year term: SFYs 2020-2026
- Second hospital user fee reduced from $900 million in SFY 2019 to $820 million by SFY 2026
- Medicaid rate increases effective January 1st of each year of term: 2.0% inpatient; 2.2% most outpatient services
- Supplemental Payments (compared to $453.3 million in enacted biennial budget)
  - $548.3 million SFYs 2020-2021; $568.3 million for SFYs 2022-2026
- One-Time Refunds/Payments: $70 million user fee refunds; $9.3 million Medicaid payments
- Other Payment Terms
  - Medicare wage index modification, plus other adjustments
  - For term, Medicaid hospital payment methodology cannot be altered – restriction applies to inpatient and outpatient rates and supplemental payment amounts and distribution

Limitation on Taxation of Hospitals
- No changes to hospitals’ current tax exemptions, including municipal property taxes, corporation business tax, sales and use taxes, and motor vehicle fuels tax
- For term, no more than 15% of revenue from new or amended taxes can come from hospitals

Funding for Biennium
- Requires $180.7 million over biennium – $160 million transferred from SFY 2019 and $20.7 million from unappropriated General Fund resources in SFY 2020; funds available under PA 19-117, § 50

Mitigating Unanticipated State Costs Due to Federal Actions
- Contingency to protect state from financial impact of federal actions that may occur
- State can negotiate with hospitals for mutually agreed adjustments at any time
  - If no agreement, state costs could increase up to $50 million per SFY
  - State can ask court to modify agreement for state costs between $50–100 million per SFY
- State can terminate agreement if increased state costs exceed $100 million per SFY
  - If state terminates, hospitals reinstate legal claims, reduced by applicable percentage

Value-Based Payments
- DSS cannot require downside risk in Medicaid hospital payments for term
- DSS may require upside-only Medicaid hospital value-based payments starting SFY 2023

Timing and Enforcement
- Agreement contingent on federal approval of tax waiver and Medicaid State Plan Amendments
- Superior Court retains jurisdiction to enforce agreement
| Description                                      | SFY 2019 | SFY 2020 | SFY 2021 | SFY 2022 | SFY 2023 | SFY 2024 | SFY 2025 | SFY 2026 |
|--------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Hospital User Fee                                | $900.0   | $900.0   | $890.0   | $887.0   | $850.0   | $850.0   | $850.0   | $820.0   |
| Supplemental Payments                            | 493.3    | 453.3    | 548.3    | 548.3    | 568.3    | 568.3    | 568.3    | 568.3    |
| Projection of Hospital Rate Increase             | 175.1    | 175.1    | 180.7    | 202.7    | 235.9    | 269.7    | 304.3    | 339.5    | 375.4    |
| One-Time Payments to Certain Hospitals           | 9.3      | -        | -        | -        | -        | -        | -        | -        |
| User Fee Refunds                                  | 70.0     | -        | -        | -        | -        | -        | -        | -        |
| Net Hospital Position                            | $(231.6) | $(271.6) | $(81.7)  | $(131.0) | $(45.8)  | $(12.0)  | $(22.6)  | $(57.8)  | $(123.7) |

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- Medicaid payments to all hospitals totaled $2.396 billion in SFY 2019.
- Funding to cover state costs of $180.7 million in current biennium available pursuant to PA 19-117.
- Estimates above assume 66.6% federal reimbursement on hospital payments.