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
<table>
<thead>
<tr>
<th>SETTLEMENT AGREEMENT - FINANCIAL SUMMARY</th>
<th>(in millions)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>SFY 2019</td>
</tr>
<tr>
<td>Hospital User Fee</td>
<td>$900.0</td>
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<tr>
<td>Supplemental Payments</td>
<td>493.3</td>
</tr>
<tr>
<td>Projection of Hospital Rate Increase</td>
<td>175.1</td>
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<tr>
<td>One-Time Payments to Certain Hospitals</td>
<td>9.3</td>
</tr>
<tr>
<td>User Fee Refunds</td>
<td>70.0</td>
</tr>
<tr>
<td>Net Hospital Position</td>
<td>($231.6)</td>
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</tbody>
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**Cumulative Total**

| State Impact (from SFY 2019)            | ($107.9)      | ($46.0)  | ($95.7)  | ($107.0) | ($118.5) | ($130.3) | ($172.3) | ($777.7) |
| Hospital Impact (from SFY 2019)         | 149.9         | $100.6   | 185.8    | 219.6    | 254.2    | 289.4    | 355.3    | 1,554.8  |

| State Impact (from SFY 2020 enacted budget) | ($121.3)      | ($59.4)  | ($109.1) | ($120.4) | ($131.9) | ($143.7) | ($185.7) | ($871.5) |
| Hospital Impact (from SFY 2020 enacted budget) | 189.9         | $140.6   | 225.8    | 259.6    | 294.2    | 329.4    | 395.3    | 1,834.8  |

- 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.