NUECES COUNTY HOSPITAL DISTRICT

Briefing Memorandum

SUBJECT: SFY 2027 Network Access Improvement Program (NAIP) IGT Responsibility Contract
CONTRACT: HHSC Contract No. HHS001711400008

Purpose

To brief the Board of Managers regarding the proposed Intergovernmental Transfer (IGT) Responsibility Contract between the Texas Health and Human Services Commission (HHSC) and the Nueces County Hospital District for the State Fiscal Year 2027 Network Access Improvement Program (NAIP), including the District's funding responsibilities, payment schedule, reconciliation requirements, and the related NAIP financial assumptions for CHRISTUS Spohn Health System.

Background

HHSC administers Texas Medicaid and operates NAIP through Medicaid managed care organizations. Under the contract, CHRISTUS Spohn Health System is the participating hospital, and the District serves as the non-state governmental entity that transfers eligible public funds to HHSC as the non-federal share of NAIP pass-through payments. HHSC then incorporates the NAIP payment component into applicable managed care arrangements, through which participating managed care organizations make the required pass-through payments to CHRISTUS Spohn.

The contract does not represent a grant or payment from the District directly to CHRISTUS Spohn. Rather, it establishes the District's obligation to provide the non-federal share of the Medicaid payment through IGTs to HHSC, subject to the contract's funding, reconciliation, and adjustment provisions.

NAIP Program Context

HHSC describes NAIP as a Medicaid managed care pass-through payment program intended to support improved network access. HHSC program materials describe the program as supporting the availability and effectiveness of health care services through participating public hospitals and related health institutions. NAIP payments are made through Medicaid managed care rather than as direct fee-for-service supplemental payments.

Federal Medicaid managed care rules define a pass-through payment as an amount added to managed care payment rates that is not tied to a specific service delivered to a specific enrollee or to another specifically permitted provider payment methodology. The District's contract expressly identifies NAIP payments as pass-through payments under 42 C.F.R. §438.6 and provides the local financing mechanism for the non-federal share.

Contract Term

Item	Contract Provision
Contract Period	September 1, 2026 - August 31, 2027
Maximum Contract Amount	$3,347,716
Initial IGT Due Date	August 25, 2026
Subsequent IGT Due Dates	10th day of each month through July 10, 2027
Reconciliation Completion	No later than August 31, 2029

District Funding Responsibility

The contract amount may not exceed $3,347,716. This amount is designed to cover the estimated non-federal share of NAIP pass-through payments, plus a 10 percent margin, together with the non-federal share of applicable managed care risk margin, administrative fees, and other NAIP-related amounts HHSC is required to pay participating managed care organizations.

The District must transfer at least one-twelfth of the contract amount by August 25, 2026, and at least one-twelfth on the tenth day of each month thereafter through July 10, 2027. One-twelfth of the stated maximum contract amount is approximately $278,976.33. The financial assumptions in Attachment A produce a combined stated monthly IGT, including the 10 percent margin, of approximately $278,976, which closely corresponds to the contract amount after rounding.

SFY 2027 Financial Assumptions

Managed Care Arrangement	All Funds	IGT w/o 10% Buffer	Monthly IGT w/ 10% Margin
Superior - CHRISTUS Spohn	$4,331,621	$1,791,125	$164,186
United - CHRISTUS Spohn	$3,028,422	$1,252,253	$114,790
Combined	$7,360,043	$3,043,378	$278,976

Attachment A assumes a 58.65 percent Federal Medical Assistance Percentage (FMAP). On the amounts shown, the combined non-federal IGT requirement before the 10 percent buffer is approximately $3.043 million. Applying the 10 percent margin produces approximately $3.348 million, consistent with the maximum contract amount.

The attachment also reflects approximately $7.360 million in combined 'All Funds' payments and approximately $7.213 million identified as net to the provider, with managed care tax and administrative components shown separately. These figures are program financial assumptions and remain subject to actual enrollment, rate components, managed care payments, and reconciliation.

Reconciliation and Financial Risk

The contract contains a multi-stage reconciliation process because the final non-federal share depends on actual NAIP rate components and final Medicaid member months. HHSC will compare District IGTs with the non-federal share actually expended for the contract period.

- If District transfers exceed 102 percent of the non-federal share expended during an interim reconciliation, HHSC will refund the amount above 102 percent and retain the remaining excess pending final reconciliation.
- If District transfers are less than 102 percent of the non-federal share expended, HHSC will issue a shortfall notice, and the District generally must transfer the shortfall within 30 days.
- HHSC may conduct interim reconciliations after August 31, 2027 as adjusted enrollment data become available.
- A final reconciliation must be completed no later than August 31, 2029. At final reconciliation, excess IGTs are refunded, while any final shortfall becomes payable by the District within 30 days unless HHSC extends the deadline.

Accordingly, the $3,347,716 amount should be viewed as the contractual maximum based on current assumptions rather than a guaranteed final cost. Actual District funding may be adjusted through reconciliation as enrollment and payment information is finalized.

Public Funds Requirement

IGTs must consist of public funds within the District's sole and unrestricted control. The contract defines public funds to include funds derived from taxes, assessments, levies, investments, and other public revenues, while excluding gifts, grants, trusts, or donations whose use is conditioned on providing a benefit solely to the donor or grantor. This requirement is central to the Medicaid financing structure because the District's IGT is used as the non-federal share that permits federal Medicaid matching funds to be drawn.

HHSC and District Responsibilities

The District's principal responsibility is timely transfer of the required public funds and payment of any reconciliation shortfall. HHSC is responsible for providing the applicable NAIP rate components and completing the required reconciliation processes. HHSC may revise the remaining monthly transfer amount if it determines during the contract period that the anticipated funding requirement will exceed the previously stated amount.

Termination and Continuing Obligations

HHSC may terminate the contract at any time in its sole discretion by written notice. Contract terms relating to reconciliation survive the end of the contract period, meaning the District's financial responsibilities do not necessarily conclude on August 31, 2027. Reconciliation activity may continue through August 31, 2029.

Program and Policy Observations

- NAIP functions as a Medicaid financing mechanism: local public funds provide the non-federal share, federal Medicaid matching funds are added through the State's managed care financing structure, and participating MCOs make the pass-through payments to the hospital.
- The contract's 10 percent margin is a funding cushion rather than an additional provider benefit guaranteed to be retained; excess amounts are subject to reconciliation and refund.
- The District's principal exposure is cash-flow and reconciliation risk, including the possibility of additional shortfall payments if final member months or payment amounts exceed assumptions.
- The very close correspondence between Attachment A's combined monthly IGT estimate and one-twelfth of the contract maximum indicates that the contract amount is directly built from the attached SFY 2027 program assumptions.

Board Consideration

The Board is being asked to consider authorizing the District to enter into the SFY 2027 NAIP IGT Responsibility Contract with HHSC. Approval would commit the District to provide eligible public funds, up to the stated contractual maximum and subject to reconciliation, as the non-federal share supporting NAIP pass-through payments associated with CHRISTUS Spohn Health System for the September 1, 2026 through August 31, 2027 program period.

Summary

The proposed contract continues the District's role as a governmental financing entity for NAIP. For SFY 2027, the contract establishes a maximum IGT responsibility of $3,347,716, with estimated monthly transfers of approximately $278,976. The underlying financial assumptions contemplate approximately $7.36 million in combined NAIP all-funds payments associated with CHRISTUS Spohn. Final District cost will depend on actual managed care enrollment and payment experience and will be resolved through HHSC reconciliation processes extending as late as August 31, 2029.

Sources

Contract source: HHSC Contract No. HHS001711400008 and Attachment A, SFY 2027 NAIP Program Financial Assumptions.

Supplemental program context: Texas Health and Human Services Commission, Directed Payment Programs; Texas Medicaid and CHIP Reference Guide; Texas 1115 Waiver Overview and Background Resources; and applicable federal Medicaid managed care pass-through payment requirements under 42 C.F.R. §438.6.