

**BILL ANALYSIS**

Senate Research Center

H.B. 3505  
By: Harris (Hughes)  
Local Government  
5/9/2025  
Engrossed

**AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

Since 2013, local governments across Texas have utilized local provider participation funds (LPPFs) in lieu of state revenue to help fund Medicaid, according to the Health and Human Services Commission. However, the bill author has informed the committee that until recently, small, rural counties were unable to participate in these programs by nature of having only one hospital in their county. In 2019, the legislature passed H.B. 4289, which authorized local governmental entities located in isolated rural areas to unite to form a multi-jurisdictional LPPF. In 2023, the Northeast Health Care Provider Participation District was created under that law, as reported by the *Sulphur Springs News Telegram*. This district operates an LPPF program serving Henderson County, the Hopkins County Hospital District, and Lamar County, but because of sunset provisions in the applicable law, this program is set to expire on September 1, 2025, without legislative renewal. H.B. 3505 seeks to extend the operations of the district.

H.B. 3505 amends current law relating to the continuation and operation of a health care provider participation district created by certain local governments to administer a health care provider participation program.

**RULEMAKING AUTHORITY**

Rulemaking authority is expressly granted to the executive commissioner of the Health and Human Services Commission in SECTION 1 (Section 300C.0154, Health and Safety Code) of this bill.

**SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Subtitle D, Title 4, Health and Safety Code, by adding Chapter 300C, as follows:

CHAPTER 300C. HEALTH CARE PROVIDER PARTICIPATION DISTRICTS CREATED  
BY CERTAIN LOCAL GOVERNMENTS

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 300C.0001. PURPOSE. Sets forth the purpose of this chapter.

Sec. 300C.0002. DEFINITIONS. Defines "board," "director," "district," "institutional health care provider," "local government," "paying hospital," and "program."

Sec. 300C.0003. APPLICABILITY. Provides that this chapter applies only to a local government that jointly created a health care provider participation district (district) by concurrent order under Chapter 300A (Health Care Provider Participation Program in Districts Composed of Certain Local Governments) and is a county with a population of more than 80,000 and less than 90,000 that borders the Trinity River, a county with a population of more than 45,000 and less than 55,000 that borders Oklahoma, or a hospital district located in a county that has a population of more than 30,000 and contains a portion of Jim Chapman Lake.

## SUBCHAPTER B. OPERATION AND DISSOLUTION OF DISTRICT

Sec. 300C.0021. OPERATION. (a) Authorizes a health care provider participation district created under Chapter 300A to operate under and be governed by the provisions of this chapter instead of Chapter 300A if each local government that jointly created the district adopts a concurrent order authorizing the district to operate under and be governed by the provisions of this chapter and the district's board of directors (board) ratifies the concurrent order adopted by each participating local government.

(b) Requires that a concurrent order authorizing a district to operate under this chapter be approved by the governing body of each participating local government, contain provisions that are identical to the provisions of the concurrent order adopted by each other participating local government, affirm that the district's territory is the area contained within the boundaries of each participating local government, and provide that the district begins to operate under this chapter immediately on the expiration of the district's authority to administer and operate a program under Chapter 300A.

Sec. 300C.0022. POWERS. (a) Authorizes a district to authorize and administer a health care provider program (program) in accordance with this chapter.

(b) Authorizes a district that complies with the provisions of this chapter, notwithstanding Section 300A.0155 (Expiration of Authority), to administer and operate a program under this chapter after its authority to administer and operate a program under Chapter 300A has expired.

Sec. 300C.0023. BOARD OF DIRECTORS. (a) Requires the presiding officer of the governing body (presiding officer) of each local government that created the district, if three or more local governments adopt concurrent orders authorizing district to operate under this chapter, to appoint one director.

(b) Provides that, if two local governments adopt concurrent orders described by Subsection (a):

(1) the presiding officer of the most populous local government is required to appoint two directors; and

(2) the presiding officer of the local government not described by Subdivision (1) is required to appoint one director.

(c) Provides that directors serve staggered two-year terms, with as near as possible to one-half of the directors' terms expiring each year.

(d) Requires that a vacancy in the office of director be filled for the unexpired term in the same manner as the original appointment.

(e) Requires the board to elect from among its members a president and a vice president.

(f) Authorizes the president to vote and to cast an additional vote to break a tie.

(g) Requires the board to appoint a secretary, who need not be a director.

(h) Provides that each officer of the board serves for a term of one year.

(i) Requires the board to fill a vacancy in a board office for the unexpired term.

(j) Requires that a majority of the members of the board voting concur in a matter relating to the business of the district.

Sec. 300C.0024. QUALIFICATIONS FOR OFFICE. (a) Provides that, to be eligible to serve as a director, a person is required to be a resident of the local government that appoints the person.

(b) Prohibits an employee of the district from serving as a director.

Sec. 300C.0025. COMPENSATION. (a) Provides that directors and officers serve without compensation but are authorized to be reimbursed for actual expenses incurred in the performance of official duties.

(b) Requires that expenses reimbursed under this section be reported in the director's minute book or other district records and approved by the board.

Sec. 300C.0026. AUTHORITY TO SUE AND BE SUED. Authorizes the board to sue and be sued on behalf of the district.

Sec. 300C.027. DISTRICT FINANCES. (a) Provides that, except as otherwise provided by this section, Subchapter F (District Finances), Chapter 287 (Health Services Districts), applies to a district in the same manner that the provisions of that subchapter apply to a health services district created under Chapter 287.

(b) Provides that Sections 287.129 (Spending and Investment Limitations) and 287.130 (Depository) do not apply to a district.

(c) Provides that this section does not authorize a district to issue bonds.

Sec. 300C.0028. DISSOLUTION. Requires a district to be dissolved if the local governments that created the district adopt concurrent orders to dissolve the district and the concurrent orders contain identical provisions.

Sec. 300C.0029. ADMINISTRATION OF PROPERTY, DEBTS, AND ASSETS AFTER DISSOLUTION. (a) Requires the board, after dissolution of a district under Section 300C.0028, to continue to control and administer any property, debts, and assets of the district until all of the district's property and assets have been disposed of and all of the district's debts have been paid or settled.

(b) Require the board, as soon as practicable after the dissolution of the district, to transfer to each institutional health care provider in the district the provider's proportionate share of any remaining money in any local provider participation fund created by the district.

(c) Requires the district, if, after administering the district's property and assets, the board determines that the property and assets are insufficient to pay the debts of the district, to transfer the remaining debts to the local governments that created the district in proportion to the money contributed to the district by each local government, including a paying hospital in the local government.

(d) Requires the board, if, after complying with Subsections (b) and (c) and administering the district's property and assets, the board determines that unused money remains, to transfer the unused money to the local governments that created the district in proportion to the money contributed to the district by each local government, including a paying hospital in the local government.

Sec. 300C.0030. ACCOUNTING AFTER DISSOLUTION. Requires the board, after the district has paid or settled all its debts and has disposed of all its property and assets, including money, as prescribed by Section 300C.0029, to provide an accounting to each local government that created the district. Requires that the accounting show the manner in which the property, assets, and debts of the district were distributed.

## SUBCHAPTER C. HEALTH CARE PROVIDER PARTICIPATION PROGRAM; POWERS AND DUTIES OF DISTRICT BOARD

Sec. 300C.0051. HEALTH CARE PROVIDER PARTICIPATION PROGRAM. Authorizes the board of a district to authorize the district to participate in a program on the affirmative vote of a majority of the board, subject to the provisions of this chapter.

Sec. 300C.0052. LIMITATION ON AUTHORITY OF BOARD TO REQUIRE MANDATORY PAYMENT. (a) Authorizes the board to require a mandatory payment authorized under this chapter by an institutional health care provider in the district only in the manner provided by this chapter.

(b) Prohibits the board from requiring a mandatory payment under this chapter during a period for which the board requires a mandatory payment under Chapter 300A.

Sec. 300C.0053. RULES AND PROCEDURES. Authorizes the board to adopt rules relating to the administration of the program in the district, including collection of the mandatory payments, expenditures, audits, and any other administrative aspects of the program.

Sec. 300C.0054. INSTITUTIONAL HEALTH CARE PROVIDER REPORTING. (a) Requires the board, if the board authorizes the district to participate in a program under this chapter, to require each institutional health care provider located in the district to submit to the district a copy of any financial and utilization data required by and reported to the Department of State Health Services (DSHS) under Sections 311.032 (Department Administration of Hospital Reporting and Collection System) and 311.033 (Financial and Utilization Data Required) and any rules adopted by the executive commissioner of the Health and Human Services Commission (HHSC) to implement those sections.

(b) Authorizes the board to inspect the records of an institutional health care provider in the district to the extent necessary to ensure compliance with the requirements of Subsection (a).

## SUBCHAPTER D. GENERAL FINANCIAL PROVISIONS

Sec. 300C.0101. HEARING. (a) Requires the board, in each year that the board authorizes a program under this chapter, to hold a public hearing on the amounts of any mandatory payments that the board intends to require during the year and how the revenue derived from those payments is to be spent.

(b) Requires the board, not later than the fifth day before the date of the hearing required under Subsection (a), to publish notice of the hearing in a newspaper of general circulation in each local government that created the district and provide written notice of the hearing to the chief operating officer of each institutional health care provider in the district.

(c) Provides that a representative of a paying hospital is entitled to appear at the public hearing and be heard regarding any matter related to the mandatory payments authorized under this chapter.

Sec. 300C.0102. LOCAL PROVIDER PARTICIPATION FUND; DEPOSITORY. (a) Requires the board to deposit all mandatory payments received by a district in the local provider participation fund created by the district under Chapter 300A.

(b) Authorizes the board to designate one or more banks as the depository for the district's local provider participation fund.

(c) Authorizes the board to withdraw or use money in the district's local provider participation fund only for a purpose authorized under this chapter.

(d) Requires that all funds collected under this chapter be secured in the manner provided for securing other funds of the local governments that created the district.

Sec. 300C.0103. DEPOSITS TO FUND; AUTHORIZED USES OF MONEY. (a) Provides that the local provider participation fund described by Section 300C.0102 consists of certain monies.

(b) Requires that money deposited to the local provider participation fund be used only to:

(1) fund intergovernmental transfers from the district to the state to provide the nonfederal share of Medicaid payments for:

(A) uncompensated care payments to nonpublic hospitals, if those payments are authorized under the Texas Healthcare Transformation and Quality Improvement Program waiver issued under Section 1115 of the federal Social Security Act (42 U.S.C. Section 1315), or a successor waiver program authorizing similar Medicaid supplemental payment programs;

(B) uniform rate enhancements for nonpublic hospitals in the Medicaid managed care service area in which the district is located;

(C) payments available under another waiver program authorizing payments that are substantially similar to Medicaid payments to nonpublic hospitals described by Paragraph (A) or (B); or

(D) any reimbursement to nonpublic hospitals, or that may benefit nonpublic hospitals as determined by the board, for which federal matching funds are available;

(2) subject to Section 300C.0151(d), pay the administrative expenses of the district in administering the program, including collateralization of deposits;

(3) refund all or a portion of a mandatory payment collected in error from a paying hospital, regardless of whether the payment was collected under this chapter or Chapter 300A; and

(4) refund to paying hospitals a proportionate share of the money that the district receives from HHSC that is not used to fund the nonfederal share of Medicaid supplemental payment program payments or determines cannot be used to fund the nonfederal share of Medicaid supplemental payment program payments.

(c) Prohibits money in the local provider participation fund from being commingled with other district money or other money of a local government that created the district.

(d) Provides that, notwithstanding any other provision of this chapter, with respect to an intergovernmental transfer of funds described by Subsection (b)(1) made by the district, any funds received by the state, district, or other entity as a result of the transfer are prohibited from being used by the state, district, or any other entity to expand Medicaid eligibility under the Patient Protection and Affordable Care Act (Pub. L. No.A111-148) as amended by the Health Care and Education Reconciliation Act of 2010 (Pub. L. No.A111-152).

Sec. 300C.0104. ACCOUNTING. Requires the district to maintain an accounting of the money received from each local government that created the district, including a paying hospital located in a hospital district, county, or municipality that created the district, as applicable.

#### SUBCHAPTER E. MANDATORY PAYMENTS

Sec. 300C.0151. MANDATORY PAYMENTS BASED ON PAYING HOSPITAL NET PATIENT REVENUE. (a) Requires the district, except as provided by Subsection (e), if the board authorizes a program under this chapter, to require an annual mandatory payment to be assessed on the net patient revenue of each institutional health care provider located in the district. Requires the board to provide that the mandatory payment is to be assessed at least annually, but not more often than quarterly. Provides that, in the first year in which the mandatory payment is required, the mandatory payment is assessed on the net patient revenue of an institutional health care provider located in the district as determined by the data reported to DSHS under Sections 311.032 and 311.033 in the most recent fiscal year for which that data was reported. Provides that, if the institutional health care provider did not report any data under those sections, the provider's net patient revenue is the amount of that revenue as contained in the provider's Medicare cost report submitted for the previous fiscal year or for the closest subsequent fiscal year for which the provider submitted the Medicare cost report. Requires the district to update the amount of the mandatory payment on an annual basis.

(b) Requires that the amount of a mandatory payment authorized under this chapter be uniformly proportionate with the amount of net patient revenue generated by each paying hospital in the district. Prohibits a program authorized under this chapter from holding harmless any institutional health care provider, as required under 42 U.S.C. Section 1396b(w) and 42 C.F.R. Section 433.68.

(c) Requires the board to set the amount of a mandatory payment authorized under this chapter. Prohibits the aggregate amount of the mandatory payments required of all paying hospitals in the district from exceeding six percent of the aggregate net patient revenue from hospital services provided by all paying hospitals in the district.

(d) Requires the board, subject to Subsection (c), to set the mandatory payments in amounts that in the aggregate will generate sufficient revenue to cover the administrative expenses of the district for activities under this chapter and to fund an intergovernmental transfer described by Section 300C.0103(b)(1). Provides that the annual amount of revenue from mandatory payments that is required to be paid for administrative expenses by the district for activities under this chapter is prohibited from exceeding \$150,000, plus the cost of collateralization of deposits, regardless of actual expenses.

(e) Prohibits a paying hospital from adding a mandatory payment required under this section as a surcharge to a patient.

(f) Provides that, for the purposes of any hospital district that participates in a district authorized to operate under this chapter, a mandatory payment assessed under this chapter is not a tax for hospital purposes for purposes of the applicable provision of Article IX (Counties), Texas Constitution.

Sec. 300C.0152. ASSESSMENT AND COLLECTION OF MANDATORY PAYMENTS. (a) Authorizes the district to designate an official of the district or contract with another person to assess and collect the mandatory payments authorized under this chapter.

(b) Requires the person charged by the district with the assessment and collection of mandatory payments to charge and deduct from the mandatory payments

collected for the district a collection fee in an amount not to exceed the person's usual and customary charges for like services.

(c) Provides that if the person charged with the assessment and collection of mandatory payments is an official of the district, any revenue from a collection fee under Subsection (b) is required to be deposited in the district's general fund and, if appropriate, be reported as fees of the district.

**Sec. 300C.0153. LIMITATION ON AUTHORITY; CORRECTION OF INVALID PROVISION OR PROCEDURE.** (a) Provides that this chapter does not authorize the district to assess and collect mandatory payments for the purpose of raising general revenue or any amount in excess of the amount reasonably necessary to fund the nonfederal share of a Medicaid supplemental payment program or Medicaid managed care rate enhancements for nonpublic hospitals and cover the administrative expenses of the district associated with activities under this chapter and other uses of the fund described by Section 300C.0103(b).

(b) Authorizes the district to assess and collect a mandatory payment authorized under this chapter only if a waiver program, uniform rate enhancement, or reimbursement described by Section 300C.0103(b)(1) is available to the district.

(c) Authorizes the board, to the extent any provision or procedure under this chapter causes a mandatory payment authorized under this chapter to be ineligible for federal matching funds, to provide by rule for an alternative provision or procedure that conforms to the requirements of the federal Centers for Medicare and Medicaid Services. Prohibits a rule adopted under this section from creating, imposing, or materially expanding the legal or financial liability or responsibility of the district or an institutional health care provider in the district beyond the provisions of this chapter. Provides that this section does not require the board to adopt a rule.

**Sec. 300C.0154. REPORTING REQUIREMENTS.** (a) Requires the board of a district that authorizes a program under this chapter to report information to HHSC regarding the program on a schedule determined by HHSC.

(b) Requires that the information include:

(1) the amount of the mandatory payments required and collected in each year the program is authorized;

(2) any expenditure or other use of money attributable to mandatory payments collected under this chapter, including any contract with an entity for the administration or operation of a program authorized by this chapter or a contract with a person for the assessment and collection of a mandatory payment as authorized under Section 300C.0152; and

(3) the amount of money attributable to mandatory payments collected under this chapter that is used for a purpose other than a purpose described by Subdivisions (1) and (2).

(c) Requires the executive commissioner of HHSC to adopt rules to administer this section.

**Sec. 300C.0155. AUTHORITY TO REFUSE FOR VIOLATION.** Authorizes HHSC to refuse to accept money from a local provider participation fund administered under this chapter if HHSC determines that acceptance of the money may violate federal law.

**Sec. 300C.0156. INTEREST AND PENALTIES.** Authorizes the district to impose and collect interest and penalties on delinquent mandatory payments assessed under this

chapter in any amount that does not exceed the maximum amount authorized for other delinquent payments owed to the local governments that created the district.

SECTION 2. Authorizes a director of a district appointed, or a board officer elected, under Chapter 300A, Health and Safety Code, to continue to serve the remainder of the director's or officer's term in accordance with that chapter after the district begins to operate under Chapter 300C, Health and Safety Code, as added by this Act. Provides that, a director or board officer that serves on the board of a district created under Chapter 300A, Health and Safety Code, is eligible for reappointment or re-election, as applicable, under Chapter 300C, Health and Safety Code, as added by this Act, unless otherwise disqualified.

SECTION 3. Requires a state agency, if necessary for implementation of a provision of this Act, to request a waiver or authorization from a federal agency, and authorizes delay of implementation until such a waiver or authorization is granted.

SECTION 4. Effective date: upon passage or September 1, 2025.