



STATE OF WASHINGTON
DEPARTMENT OF SOCIAL AND HEALTH SERVICES

December 1, 2005

Mr. Scott Bond
Chair, Washington State Hospital Association
300 Elliot Avenue West
Seattle, Washington 98119-4118

Dear Mr. Bond,

Thank you for participating in the Medicaid inpatient reimbursement study project. Your letter clearly articulates the issues related to the study, as well as the concerns of the provider community. Your input has provided significant value to this process, and we look forward to your thoughtful participation during Phase 2 of the project.

My staff and I have reviewed the issues raised in your letter and addenda in conjunction with our review of Navigant's Phase 1 report. We recognize that all of the issues described in your letter and addenda are significant issues.

Based on our review of your letter and Navigant Consulting's Phase 1 report, it appears that the "General Issues" in your Addendum 1 have been considered and discussed in the report, to the extent that they are within the scope of this project. Many of the "Specific Issues" in Addendum 1 are also addressed as part of Navigant Consulting's report, but your comments add additional context that will be valuable when evaluating options as part of Phase 2 of this project. As such, we will carry these issues forward as we move into Phase 2.

We are also aware of the "Out of Scope" issues raised in your Addendum 2 that are related to Medicaid payments and hospital operations. As we have discussed during our meetings with the various provider groups facilitated by the WSHA, the scope of this project is specifically defined, and due to the scope limitations of this project, we will need to continue to focus on the issues that were identified by the legislature.

The Addendum 3 – Principles for Medicaid Payments to Washington Hospitals, was provided to us during our first meeting with the WSHA for this project, and is included in Navigant's report as an appendix. Most of the issues in that addendum are similar to issues identified in your Addendum 1.

It is our understanding that your letter and addenda will be included as an appendix to Navigant Consultant's Phase 1 report.

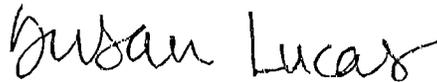


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The Medicaid inpatient reimbursement system study is under the directive of the legislature and will continue to explore other payment options to achieve efficiency and equality in payments between similar types of hospitals and services. We will carefully evaluate and take into consideration the issues raised by providers, the financial impacts on the individual hospitals, and State's aggregate Medicaid inpatient payments throughout the data analysis phase of the system development process.

We hope that your participation in Phase 2 will help us to mutually achieve a successful redesign or appropriate improvements to the current Washington State Medicaid inpatient reimbursement system. Again, thank you for being a partner with the Health Recovery Services Administration in providing medical services for the needy.

Sincerely,



Susan Lucas, Director
Division of Business and finance
Health Recovery Services Administration

cc: Doug Porter, HRSA
Robin Arnold-William, DSHS
WSHA Board