

## Amendment 33 to the TennCare II Demonstration

### Description of Amendment and Affected Populations

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In Amendment 33, Tennessee proposes to amend the Special Terms and Conditions (STCs) governing its supplemental payments to hospitals. The proposed changes will affect three aspects of Tennessee's supplemental payment pools:

1. Adjusting the amount Tennessee is authorized to spend in the Uncompensated Care Fund described in STC 55.b;
2. Retaining the supplemental payment pool for Meharry Medical College described in STC 53.c; and
3. Amending the timeframe over which Tennessee is required to transition to its new supplemental payment structure.

In addition, the state is requesting a change to the amount and distribution methodology applied to the Essential Access Hospital pool.

#### Background

The TennCare demonstration allows the state to make payments to qualifying hospitals to help offset the costs these facilities incur in providing uncompensated care. The TennCare demonstration currently authorizes payments to hospitals from seven sources, or "pools":

- the Essential Access Hospital (EAH) pool,
- the Critical Access Hospital (CAH) pool,
- the Meharry Medical College pool,
- the Unreimbursed Public Hospital Costs Pool for Certified Public Expenditures (CPE),
- Disproportionate Share Hospital (DSH) payments,
- the Unreimbursed Hospital Cost (UHC) pool, and
- the Public Hospital Supplemental Payment (PHSP) pool.

Different types of hospitals may qualify to receive payments from these different sources as specified in the demonstration's STCs.

The current terms of the TennCare demonstration require the state to transition to a new payment structure, in which the pools listed above are eliminated and future supplemental payments to hospitals are made from just two sources: a "virtual DSH" fund and an uncompensated care fund. Tennessee is required to begin operating this new funding structure beginning July 1, 2018.

In order to effectively manage this transition and ensure adequate support to Tennessee hospitals providing uncompensated care, Tennessee is requesting the following changes to the STCs governing the state's supplemental payment structure:

### **1. Adjust the Funding Amount in the Uncompensated Care Fund**

Beginning on July 1, 2018, the state is authorized to disburse up to \$163,003,147 annually from the new uncompensated care fund. The state requests that this funding total be adjusted. In 2016, CMS unnecessarily reduced the state's available uncompensated care funding by \$89,842,739 per year. The state requests that this funding reduction be restored, so that the total amount in the state's new uncompensated care fund will be \$252,845,886 annually. The restoration of this reduction is necessary in order to ensure adequate support to Tennessee hospitals providing uncompensated care.

### **2. Retain the Meharry Medical College Pool**

Meharry Medical College is one of the nation's top five producers of primary care physicians. Meharry provides \$26 million annually in medical and dental care in Middle Tennessee at no cost to the patient. It also interacts with the broader community through a variety of programs that aid underserved populations such as the homeless and the elderly to help improve the quality of their health care.

The Meharry Medical College Pool was created in 2003 in order to help address the uncompensated costs incurred by two clinics operated by Meharry that provide care to TennCare members and the medically indigent. The Meharry Medical College Pool is authorized for up to \$10 million annually, based on the uncompensated costs of care provided by the clinics as determined by an independent audit each year.

Under the STCs of the TennCare demonstration, the Meharry Medical College Pool is scheduled to end on June 30, 2018, when TennCare's current supplemental payment structure will be replaced by the new virtual DSH and uncompensated care funds.

The state requests that the Meharry Medical College Pool be retained for the duration of the TennCare demonstration. The clinics supported by the Meharry Medical College Pool provide vital health care services to vulnerable populations in Middle Tennessee, and this support should be continued. The Meharry Medical College Pool is unique among TennCare's existing supplemental payment pools, in that the funds disbursed by this pool support clinics rather than hospitals. As non-hospital providers, the Meharry clinics will not be eligible to receive payments from the new virtual DSH fund or uncompensated care fund. For this reason, the state requests to retain a mechanism by which it can continue to support the clinics operated by Meharry. Because the Meharry Medical College Pool supports non-hospital care, the funds in the Meharry Medical College Pool should be considered separately and not counted against any cap that CMS establishes for hospital uncompensated care.

### **3. Amend the Timeframe for Transitioning to the New Funding Structure**

The STCs of the TennCare demonstration call for the state to restructure its longstanding supplemental payment structure by eliminating the multiple pools currently operated by the state and replacing them with two new funds—a "virtual DSH" fund and an uncompensated care fund. The STCs require the state to begin operating the new funding system on July 1, 2018. The state requests to increase the length of

this transition period, so that the state and its hospitals can better understand, and more effectively manage, the transition to the new funding structure.

Although not directly addressed by the STCs, we note that the state and CMS have discussed at length the data sources used as the basis for calculating uncompensated care payments to hospitals. The payments made from Tennessee’s existing supplemental pools have, for the most part, historically been based on data from the Joint Annual Report of Hospitals (JAR), an annual report required of all licensed hospitals by the Tennessee Department of Health. In its conversations with the state, CMS has insisted the state begin using Medicare cost reports (Worksheet S-10) as the basis for its calculations of uncompensated care.

This directive on the part of CMS requires the state to accomplish two significant transitions simultaneously: (1) to a new funding structure involving the establishment of two new supplemental payment funds with new qualifications for participating hospitals, and (2) to a new data source, with which the state has limited experience, on which to base calculations of uncompensated care. The requirement to implement both of these transitions simultaneously presents a number of challenges and poses a significant risk both to the state and to the hospitals that receive uncompensated care funding from TennCare.

Accordingly, the state requests to phase in these changes over a period of several years, in order to mitigate the risks associated with these transitions, and to allow the state (and its hospitals) an opportunity to better understand, prepare for, and manage the effects of the new funding arrangement. During this transition period, the state’s current structure would remain in effect, except as otherwise indicated in the table below.

The state’s proposed transition will occur in a series of interim steps, as outlined below:

Year	Changes to Tennessee’s Supplemental Payment System
July 1, 2018-June 30, 2019 – Demonstration Year 17 – State Fiscal Year 2019	– End the UHC pool. – Distribute 50 percent of DSH funding based on JAR data and 50 percent of DSH funding based on S-10 data.
July 1, 2019-June 30, 2020 – Demonstration Year 18 – State Fiscal Year 2020	– <i>(The UHC pool is ended.)</i> – Distribute all DSH funding based on S-10 data.
July 1, 2020-June 30, 2021 – Demonstration Year 19 – State Fiscal Year 2021	– <i>(The UHC pool is ended.)</i> – Distribute all DSH funding based on S-10 data. – Distribute 50 percent of EAH funding based on JAR data and 50 percent of EAH funding based on S-10 data.
July 1, 2021-June 30, 2022 – Demonstration Year 20 – State Fiscal Year 2022	– <i>(The UHC pool is ended.)</i> – Distribute all DSH funding based on S-10 data. – Distribute all EAH funding based on S-10 data.

Year	Changes to Tennessee’s Supplemental Payment System
July 1, 2022-June 30, 2023 – Demonstration Year 21 – State Fiscal Year 2023	– <i>(The UHC pool is ended.)</i> – Distribute all DSH funding based on S-10 data. – Distribute all EAH funding based on based on S-10 data. – Distribute 50 percent of PHSP funding based on JAR data and 50 percent of PHSP funding based on S-10 data.
July 1, 2023-June 30, 2024 – Demonstration Year 22 – State Fiscal Year 2024	– <i>(The UHC pool is ended.)</i> – Distribute all DSH funding based on S-10 data. – Distribute all EAH funding based on based on S-10 data. – Distribute all PHSP funding based on based on S-10 data.
July 1, 2024-June 30, 2025 – Demonstration Year 23 – State Fiscal Year 2025	– <i>(The UHC pool is ended.)</i> – End the EAH, CAH, CPE, PHSP, and DSH pools. – Implement the new Virtual DSH Fund and Uncompensated Care Fund. All monies from these funds are distributed based on S-10 data.

The timeframe outlined above would allow the state and its hospitals to more effectively transition to the new supplemental funding structure specified in the demonstration’s STCs.

**Change to EAH Pool Amount and Methodology**

In addition to the changes described above, the state proposes to modify the amount and distribution methodology applied to the EAH pool. The state requests that the maximum amount of the EAH pool be increased by \$25 million (to \$125 million total annually). The purpose of this request is to ensure that children’s hospitals in Tennessee receive appropriate support from the EAH pool. The state requests that the \$25 million be directed at hospital groups that include children’s hospitals as follows:

EAH Hospital Type	Current Total	Amount to be Added	New Total
Essential Service Safety Net	\$50 million	\$3.5 million	\$53.5 million
Children’s Safety Net	\$5 million	\$20 million	\$25 million
Free Standing Psychiatric Hospitals	\$2 million	\$0	\$2 million
Other Essential Acute Care	\$43 million	\$1.5 million	\$44.5 million

For additional information on this component of the state’s request, see the discussion of public notice and input below.

**Expected Impact on Enrollment and Expenditures**

Amendment 33 will not result in any increase or decrease in enrollment in the TennCare demonstration.

Implementation of Amendment 33 will increase the state’s capacity to reimburse qualifying hospitals for costs incurred in providing uncompensated care by \$89,842,739 per year. Implementation of

Amendment 33 will also result in the addition of \$25 million annually to the EAH pool. An updated overview of the demonstration's finances that reflects these changes is attached separately.

## Hypothesis and Evaluation Parameters

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The state does not anticipate modifying the demonstration evaluation design based on these changes.

## Waiver and Expenditure Authorities Requested

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The state is not requesting any new waiver or expenditure authorities to effectuate these changes. The demonstration's existing Expenditure Authority #4 should be modified to reflect the requested changes.

## Public Notice and Input

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### ***Public Notice Process***

The state has used multiple mechanisms for notifying interested parties about Amendment 33 and for soliciting public input on the proposal. These public notice and input procedures are informed by—and comply with—the requirements specified at 42 CFR § 431.408.

The state's public notice and comment period began on December 1, 2017, and lasted through January 2, 2018. During this time, a comprehensive description of the amendment to be submitted to CMS was made available for public review and comment on an amendment-specific webpage on the TennCare website. An abbreviated public notice—which included a summary description of Amendment 33; the locations, dates, and times of two public hearings; and a link to the full public notice on the state's amendment-specific webpage—was published in the newspapers of widest circulation in Tennessee cities with a population of 50,000 or more. TennCare disseminated information about the proposed amendment, including a link to the relevant webpage, via Facebook and Twitter. TennCare also notified the members of the Tennessee General Assembly of Amendment 33 via an electronically transmitted letter.

The state held two public hearings to seek public comment on the amendment. The first hearing took place on December 8, 2017, at 3:00 p.m. Central Time at the TennCare Building, 310 Great Circle Road in Nashville. The second public hearing took place on December 12, 2017, at 1:00 p.m. Central Time at the Phillips Education and Resource Learning (PEARL) Center of the Tennessee Department of Labor and Workforce Development, 220 French Landing Drive in Nashville. Telephonic access to the December 8 hearing was offered to individuals who were unable to attend in person and who notified the State of their desire to participate by telephone.

***Comments Received***

The state received one comment in response to its public notice. The commenter expressed support for the state's request to increase the amount of available funding in the state's uncompensated care pool by \$89.8 million. The commenter also expressed support for the state's request to extend the length of the transition period for moving the state's current supplemental payment programs to a new data source and methodology.

The commenter also noted that based on data from the Joint Annual Report of Hospitals, the state's children's hospitals receive an extremely low percentage of EAH payments and DSH payments. The commenter recommended that the maximum size of the EAH pool be increased by \$25 million and that the EAH methodology be modified to direct the additional funding to children's hospitals that meet the criteria to receive EAH payments. A copy of the commenter's letter is attached.

After considering the public input received, the state modified its request to include changes to the STC governing the EAH pool. The state agrees that these changes will help ensure that children's hospitals in Tennessee receive appropriate support from the EAH pool.

**ATTACHMENT**

**COMMENTS RECEIVED IN RESPONSE TO PUBLIC NOTICE**



December 20, 2017

Dr. Wendy Long, Director  
Division of TennCare  
310 Great Circle Road  
Nashville, TN 37243

RE: TennCare Waiver Amendment #33

Dear Dr. Long:

The Tennessee Hospital Association (THA), on behalf of its over 200 healthcare facilities, including hospitals, home care agencies, nursing homes, and health-related agencies and businesses, and over 2,000 employees of member healthcare institutions, such as administrators, board members, nurses, physicians and many other health professionals, appreciates the opportunity to comment on Amendment 33 to the TennCare II Demonstration.

THA strongly supports TennCare's request to increase funding in the state's uncompensated care pool by the \$89.8 million that had been initially reduced in the TennCare waiver. We believe that this increased availability should be directed to address uncompensated care costs in hospitals across the state and look forward to working with the state to expand uncompensated care payment programs.

THA is also very supportive of the state's proposal to extend the length of the transition period for moving the state's current supplemental payment programs to a new data source and methodology. As you are aware, these payment programs are key funding streams to all hospitals, but especially hospitals in rural areas and those hospitals that serve a larger percentage of uninsured and indigent patients. The uncertainty that can be inadvertently created by a swift move to a new distribution method for these payments could place financial stress on these hospitals that are so important to the state's health care safety net for vulnerable Tennesseans. We appreciate your understanding of our concerns on this issue and will continue to work with you and your team through the transition period to meet CMS requirements through the terms of waiver.

As THA shared in comments on the 2018 Medicare Inpatient Prospective Payment System proposed rule, we have concerns regarding the completeness and consistency of the data reported on Worksheet S-10 and its use in distributing supplemental payments. We have advocated for clear review or audit guidelines for the S-10 to assist hospitals in correctly preparing the worksheet. In the absence of clear guidance, distributions based on reported S-10 may direct supplemental payments in a manner inconsistent with CMS's goals of using the statistical report. If the state is required to use the Worksheet S-10 to inform the distribution of supplemental payments, we would request that its use be limited to pools that address

Dr. Wendy Long  
Waiver Amendment #33 Comment Letter  
December 20, 2017

uncompensated care cost. This would be more consistent with the current use of Worksheet S-10 to distribute Medicare Uncompensated Care Pool payments.

In addition to providing our support for those two proposed amendments, THA would like to provide comments on the current pool structure for the Essential Access Hospital payment.

Children's hospitals are truly essential providers for the TennCare program as over half of the state's Medicaid population is under the age of 21. Using information reported by Tennessee hospitals on the 2015 Joint Annual Report, it appears that the state's children's hospitals have an extremely low percentage of unreimbursed Medicaid and charity care cost covered by the state's Essential Access Hospital payments and DSH payments at 4.8%. This percentage is less than half of the percent of unreimbursed cost addressed through the supplemental payment pool for all other Tennessee hospitals that receive supplemental payments. THA would ask that the state consider increasing the size of the Essential Access Hospital (EAH) pool by \$25 million and adjusting the EAH methodology to direct that additional funding to children's hospitals that meet criteria to receive supplemental payment funds.

THA would also like to comment that to the extent possible within the Medicaid program, the association wants to continue to work with the Bureau to support hospitals that are struggling with shrinking or negative margins and larger uncompensated care costs. Again, the hospitals that struggle the most are the providers who are serving high volumes of indigent and uninsured patients. The healthcare safety net in the state depends heavily on TennCare supplemental payments, and THA strongly believes that the TennCare program plays a vital role in improving Tennessee's health status and economic productivity by investing funds in hospitals that serve communities across the state.

Again, thank you for the opportunity to share our thoughts and comments on the proposed amendment. If you have any questions concerning THA's comments, please contact me at 615-256-8240, [cdungan@tha.com](mailto:cdungan@tha.com).

Sincerely,

Casey Dungan  
Senior Vice President  
Tennessee Hospital Association