

## **Table of Contents**

**State/Territory Name: Tennessee**

**State Plan Amendment (SPA) #: 18-0002**

This file contains the following documents in the order listed:

- 1) Approval Letter
- 2) CMS 179 Form
- 3) Approved SPA Pages



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**Financial Management Group**

September 18, 2018

Ms. Wendy Long, M.D., M.P.H.  
Director, Division of TennCare  
310 Great Circle Road Nashville, TN 37243

RE: State Plan Amendment TN 18-0002

Dear Ms. Long:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid state plan submitted under transmittal number (TN) 18-0002. Effective July 1, 2018, this plan amendment proposes to revise the redistribution method for disproportionate share hospital (DSH) payments recovered from providers. The amendment also corrects the page numbers for the DSH section of the state plan from pages 1-3 and 3a to pages 1-5.

We conducted our review of your submittal according to the statutory requirements at sections 1902(a), 1902(a)(13), 1902(a)(30), 1903(a), and 1923 of the Social Security Act and the implementing Federal regulations at 42 CFR Part 447. We have found that the proposed changes in payment methodology comply with applicable requirements and therefore have approved them with an effective date of July 1, 2018. We are enclosing the CMS-179 and the amended approved plan pages.

If you have any questions, please call Stanley Fields at (502) 223-5332.

Sincerely,

/s/

Kristin Fan  
Director

<b>TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL</b>  <b>FOR: HEALTH CARE FINANCING ADMINISTRATION</b>		1. TRANSMITTAL NUMBER: TN-18-0002	2. STATE TENNESSEE
		3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)	
TO: REGIONAL ADMINISTRATOR CENTERS FOR MEDICARE & MEDICAID SERVICES HEALTH CARE FINANCING ADMINISTRATION DEPARTMENT OF HEALTH AND HUMAN SERVICES		4. PROPOSED EFFECTIVE DATE July 1, 2018	
5. TYPE OF PLAN MATERIAL ( <i>Check One</i> ):			
<input type="checkbox"/> NEW STATE PLAN <input type="checkbox"/> AMENDMENT TO BE CONSIDERED AS NEW PLAN <input checked="" type="checkbox"/> AMENDMENT			
COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT ( <i>Separate Transmittal for each amendment</i> )			
6. FEDERAL STATUTE/REGULATION CITATION: 42 U.S.C. § 1396-4 and 42 C.F.R. 447, Subpart E		7. FEDERAL BUDGET IMPACT: a. FFY 2018 \$175,717.00 b. FFY 2019 \$703,403.00	
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT: Attachment 4.19-A, page 3a of 3a		9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT ( <i>If Applicable</i> ): Attachment 4.19-A, page 3a of 3a	
10. SUBJECT OF AMENDMENT: Methods and Standards for Establishing Payment Rates for Inpatient Hospital Services".l'v!ed1ca1d · Disproportionate Share Hospital (DSH) Redistribution.			
11. GOVERNOR'S REVIEW ( <i>Check One</i> ): <input checked="" type="checkbox"/> GOVERNOR'S OFFICE REPORTED NO COMMENT <input type="checkbox"/> OTHER, AS SPECIFIED: <input type="checkbox"/> COMMENTS OF GOVERNOR'S OFFICE ENCLOSED <input type="checkbox"/> NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL			
12. SIGNATURE OF STATE AGENCY OFFICIAL: //s//		16. RETURN TO: Tennessee Department of Finance and Administration Division of Health Care Finance and Administration Bureau of TennCare 310 Great Circle Road Nashville, Tennessee 37243  Attention: George Woods	
13. TYPED NAME: Wendy Long			
14. TITLE: Director, Bureau of TennCare			
15. DATE SUBMITTED: 07/20/18			
<b>FOR REGIONAL OFFICE USE ONLY</b>			
17. DATE Received: 07/20/18		18. DATE APPROVED: 09/18/18	
PLAN APPROVED – ONE COPY ATTACHED			
19. EFFECTIVE DATE OF APPROVED MATERIAL: 07/01/18		20. SIGNATURE OF REGIONAL OFFICIAL: /s/	
21. TYPED NAME: Kristin Fan		22. TITLE: Acting Director, FMG	
23. REMARKS: Approved with the following changes to block #8 and 9.  Block #8 changed to read: Attachment 4.19-A pages 1 thru 5.  Block #9 changed to read: Attachment 4.19-A pages 1 thru 3a.			

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METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES  
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**Supplemental Pool Payments to Select Tennessee Hospitals**

The purpose of this amendment is to describe the state's methodology for making Disproportionate Share Hospital (DSH) payments to Tennessee hospitals and for claiming federal participation for the payments.

**Qualifications**

Hospitals eligible to participate in the Disproportionate Share Hospital (DSH) payments are defined by Section 1923 (b) of the Social Security Act. To determine which pool a 1923 (b) hospital qualifies for will depend on various criteria set forth below.

**Allocation of the DSH Payments to Segments of Hospitals**

The DSH payments should be segmented into 5 distinct groups in the following:

- Group 1 – Essential Service Safety Net – 50 percent of the remaining allotment after it is reduced for the Group 5 pool amount – These hospitals are defined as Section 1923 (b) hospitals that are both a Level 1 Trauma Center and a Regional Perinatal Center or any metropolitan public hospital that is contractually staffed and operated by a safety net hospital for the purpose of providing clinical education and access to care for the medically underserved. These hospitals must be a contracted provider with TennCare Select and, where available, at least one other Managed Care Organization in the TennCare program during the quarter in which the payment covers. If a hospital does not meet this requirement at the start of the quarter but subsequently does contract with Select and one other MCO during the quarter, the payments would be prorated accordingly. These hospitals (unless they are capitated and accept the capitation as full reimbursement) must have unreimbursed TennCare Cost.
- Group 2 – Children's Safety Net – 5 percent of the remaining allotment after it is reduced for the Group 5 pool amount – These hospitals are defined as Section 1923 (b) hospitals that are licensed by the Tennessee Department of Health whose primary function is to provide general acute care services to children under the age of 21 years in Tennessee. Each hospital must be a contracted provider with TennCare Select and, where available, at least one other Managed Care Organization in the TennCare program during the quarter in which the payment covers. If a hospital does not meet this requirement at the start of the quarter but subsequently does contract with Select and one other MCO during the quarter, the payments would be prorated accordingly. These hospitals (unless they are capitated and accept the capitation as full reimbursement) must have unreimbursed TennCare Cost.

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- Group 3 – Free Standing Psychiatric Hospitals – 2 percent of the remaining allotment after it is reduced for the Group 5 pool amount – These hospitals are defined as Section 1923 (b) hospitals that are licensed by the Tennessee Department of Mental Health and Developmental Disabilities for the provision of psychiatric hospital services in Tennessee excluding the State Mental Health Institutes. Each free standing psychiatric hospital must be a contracted provider with at least one of the Behavioral Health Organizations in the TennCare program and at least 30% of its total adjusted days must be covered by TennCare. These hospitals (unless they are capitated and accept the capitation as full reimbursement) must have unreimbursed TennCare Cost. The hospitals in this group exclude the five (5) state mental health institutes.
- Group 4 – Other Essential Acute Care – 43 percent of the remaining allotment after it is reduced for the Group 5 pool amount – These hospitals include all other Section 1923 (b) hospitals that are licensed by the Tennessee Department of Health to provide services in Tennessee excluding the critical access hospitals. These hospitals must be a contracted provider with TennCare Select and, where available, at least one other Managed Care Organization in the TennCare program during the quarter in which the payment covers. If a hospital does not meet this requirement at the start of the quarter but subsequently does contract with Select and one other MCO during the quarter, the payments would be prorated accordingly. Each acute care hospital must have either of the following: (i) at least 13.5% or more of its total adjusted days covered by TennCare; or (ii) if 9.5% or more of the total adjusted days are covered by TennCare and the number of adjusted days for the hospital is higher than the average number of TennCare Adjusted Days for all hospitals in the other essential acute care group. These hospitals (unless they are capitated and accept the capitation as full reimbursement) must have unreimbursed TennCare Cost. This group excludes the Critical Access Hospitals (CAHs). The CAHs receive cost-based reimbursement from the TennCare program and therefore do not have any unreimbursed TennCare costs.
- Group 5 – All Other DSH Hospitals - \$10,000 – These hospitals are defined by Section 1923 (b) of the Social Security Act and do not qualify for Group 1- 4.

**Allocation will be based on an assignment of points for groups 1 through 4:**

- TennCare adjusted days expressed as a percent of total adjusted patient days; and
- Charity, medically indigent care, and bad debt expressed as a percent of total expenses.

**Calculation of points**

- (1) TennCare volume is defined as the percent of a hospital's total adjusted days that are covered by TennCare. Points are assigned based on that percent as follows:

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- 1 point – greater than or equal to 9.5% but less than 13.5% and the actual number of TennCare adjusted days must be greater than the average for all hospitals in the “other essential acute care” hospitals group, which excludes the psychiatric, critical access, pediatric and safety net providers;
  - 1 point – greater than or equal to 13.5% and less than or equal to 24.5%;
  - 2 points – greater than 24.5% and less than or equal to 34.5%;
  - 3 points – greater than 34.5% and less than or equal to 49.5%;
  - 4 points – greater than 49.5%.
- (2) Bad debt, Charity and Medically Indigent – BDCHMI costs as a percent of total expenses
- 0 points – less than 4.5%
  - 1 point – greater than or equal to 4.5% and less than 9.5%
  - 2 points – greater than or equal to 9.5% and less than 14.5%
  - 3 points – greater than or equal to 14.5%

For group 5 the allocation will be divided equally among all of the facilities that qualify as group 5 so that the allocation for each hospital equals:

$\$10,000/(\text{number of hospitals in group 5})$

**Calculation of Amounts of DSH Payments**

These points will then be used to adjust the General Hospital Rate (GHR) based on pre-TennCare hospital reimbursement rates. The GHR rate included all inpatient costs (operating, capital, direct education) but excluded add ons (indirect education, MDSA, return on equity). The GHR for Safety Net Hospitals is \$908.52. The GHR for Other Essential Access Hospitals is \$674.11. The points for each qualifying hospital will be summed and then used to determine the percent of the GHR that is used to calculate the initial payment amount for each hospital.

- 7 points – 100% of GHR
- 6 points – 80% of GHR
- 5 points – 70% of GHR
- 4 points – 60% of GHR
- 3 points – 50% of GHR
- 2 points – 40% of GHR
- 1 point – 30% of GHR

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For each of the 5 pools, the appropriately weighted GHR for each qualifying hospital is multiplied by the number of adjusted TennCare days provided by the hospital. These amounts are summed for all of the hospitals that qualify for the pool. Each hospital's initially calculated amount will then be adjusted to the total in the pool. This is done by multiplying the initial calculated amount for a hospital by the ratio of the total initial calculated amount for all qualifying hospitals to the total amount of the pool allocated for that group. So if the sum of the initial calculated amounts for the pediatric group is \$9 million and the total pool for children's hospitals is \$5 million, each hospital's initial calculated amount will be multiplied by \$5 million/\$9 million.

The State will adhere to the OBRA 93 hospital specific DSH limits.

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**Medicaid Disproportionate Share Hospital (DSH) Redistribution**

**Auditing and Reporting**

As required by Section 1923(j) of the Social Security Act related to auditing and reporting of disproportionate share hospital payments, the Bureau of TennCare will implement procedures to comply with the Disproportionate Share Hospital Payments final rule issued in the December 19, 2008, Federal Register, with an effective date of January 19, 2009, to ensure that the hospital-specific DSH limits have not been exceeded.

**Redistribution Method for Recoupment of DSH Funding**

Effective in State Fiscal Year 2019, in the event that a hospital received DSH payments in a previous State Fiscal Year that exceeded its hospital-specific DSH limit in that year, the amount of the DSH excess payments received in that Fiscal Year will be recovered from the hospital and redistributed among the other hospitals that are part of the DSH funding pool groups 1-5. The data used to redistribute excess DSH payments will be consistent with the original determination of DSH payments for that Fiscal Year. Funding will be redistributed proportionally to any hospitals with availability of Medicaid shortfall or uncompensated care. The redistribution of funds related to a prior year's allotment shall not count against the State's current year DSH funding allotment.